

**Supplement PAR**

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**Partnership Tax Forms Guide (2010 Edition)**

The Basics  
Installation and Start-up  
Form 1065 Tab Settings  
Form by Form Details

This document is not a stand-alone manual. It is a supplement to the *Tax Forms Guide 2010 Edition* (for HowardSoft's Form 1040 software), and relies on that guide as the main source of instructions for the Partnership Edition. This document and the associated software are based on information compiled and interpreted by HowardSoft in late 2009 and early 2010, including the latest information from the IRS, but their complete accuracy cannot be guaranteed. Neither HowardSoft nor Dr. J. E. Howard assumes any responsibility for any consequential damages resulting from their use.

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# Partnership Supplement (2010 Edition)

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\* *Included only in Premium Level software.*

\*\* *Included only in Standard and Premium Level software.*

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## The Basics

**What it is.** The *Partnership Supplement (2010 Edition)* is a special supplement to the regular 2010 Edition of *Tax Preparer*®. It adds to the regular edition (for preparing Form 1040 returns), the ability to prepare Form 1065 returns. The IRS forms needed by most partnerships are built-in, as seen in Table PAR-1, and a unique Distribution Worksheet provides unparalleled automation in the generation of separate Schedules K-1 for partners. The Distribution Worksheet allows you to specify one of nine different automatic distribution methods, independently for each line, based on sharing percentages that you supply on Schedule K-1, and a convenient manual override allows you to customize special K-1s.

**Table PAR-1. IRS Forms in Current Partnership (1065) Edition**

Form 1065, Page 1.....	U.S. Partnership Return of Income
Form 1065, Pages 2 and 3:	
Schedule A.....	Cost of Goods Sold
Schedule B.....	Other Information
Form 1065, Page 4:	
Schedule K.....	Partners' Shares of Income, etc.
Form 1065, Page 5:	
Schedule L.....	Balance Sheets
Schedule M-1.....	Reconciliation of Income (Books vs. Return)
Schedule M-2.....	Analysis of Partners' Capital Accounts
Schedule B-1.....	Info on Partners Owning 50% or More of Partnership
Schedule D.....	Capital Gains and Losses
Schedule F.....	Profit or Loss from Farming
Schedule K-1.....	Partner's Share of Income, etc.
*Form 2848.....	Power of Attorney & Declaration of Representative
Form 3468.....	Investment Credit
*Form 4255.....	Recapture of Investment Credit
Form 4562.....	Depreciation and Amortization
Form 4684.....	Casualties and Thefts
Form 4797.....	Sales of Business Property
**Form 4835.....	Farm Rental Income and Expenses
*Form 5884.....	Work Opportunity Credit
Form 6252.....	Installment Sale Income
*Form 6478.....	Alcohol Fuel Credit
*Form 6765.....	Credit for Increasing Research Activities
*Form 6781.....	Gains & Losses from Sec 1256 Contracts & Straddles
**Form 7004.....	Automatic Extension of Time to File Return
**Form 8283.....	Noncash Charitable Contributions
*Form 8586.....	Low Income Housing Credit
*Form 8594.....	Asset Acquisition Statement Under Sec 1060
*Form 8611.....	Recapture of Low-Income Housing Credit
*Form 8822.....	Change of Address
*Form 8824.....	Like Kind Exchanges
Form 8825.....	Rental Real Estate
*Form 8846.....	Credit for Employer Social Security & Medicare Taxes Paid on Certain Employee Tips
*Form 8861.....	Welfare-to-work Credit
**Form 8910.....	Alternative Motor Vehicle Credit
Distribution worksheet.....	Allocation of Schedule K to K-1
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*Included in Premium Level software only.	
**Included in Standard and Premium Level software only.	

**Supplements the Tax Forms Guide 2010 Edition.** This document is intended:

- to provide instructions for forms that are unique to the Partnership Edition;
- to point out how forms covered in the main *Tax Forms Guide 2010 Edition* differ when used for partnership (Form 1065) returns.

Where calculations and instructions are the same for Form 1065 returns as they are for Form 1040 returns, we refer you to the main *Tax Forms Guide 2010 Edition* for details.

**Graphic printing available.** Graphic printing of ALL forms is included in our Standard Level and Premium Level software. Only text-based facsimile printing is available in the Economy software, except for the main form, but all data are printed in the same positions as the graphic forms, and sufficient wording is retained to make the forms understandable. Both Windows and Laser printing are built-in. Windows printing can produce the graphics on nearly any printer configured to work with Windows, and most ink-jet and laser printers provide high enough quality for filing even in their fast printing modes. Laser printing requires a Hewlett-Packard LaserJet Printer, or close compatible, a tax font cartridge or downloaded soft-font, and interfacing through a parallel port (not USB) in order to print graphic forms, but results in faster printing because it bypasses the Windows operating system. See Chapter 3 of the Tax Forms Guide for more information.

### Installation and Start-up

**Use User's Guide for installation instructions.** The installation and start-up in the introductions of the separate *User's Guide* apply to this Partnership Edition as well. The standard installation puts all edition years and all supplements in the same hard disk subdirectory C:\TAX, and all programs for the same tax year share the same custom settings, program settings, and start-up programs. With this standard installation, you are greeted upon start-up by a menu that gives you a choice of which version or edition to start. For example, if you have the current edition and the prior-year edition installed, you are given the choices

- 1 2010 Edition
- 2 2009 Edition

(If you make no choice after a short pause, the software will choose the current 2010 edition for you.) After you make this choice, if you have other versions installed for the selected tax year, you are next given the choice of version to use. For example, if you have the regular edition, California Supplement, and Partnership Edition all installed in the same subdirectory, you are given the choices

- 1 Federal (Form 1040 returns)
- 2 California (Form 540 returns)
- 3 Partnership (Form 1065 returns)

and you must press 3 to select the Partnership Edition. (If you make no choice after a short pause, the software will choose the federal 1040 version for you.) After you make your choice the selected version is started and soon appears on the screen.

**Add a partnership tax directory first.** Since Partnership Edition contains no pre-stored data, you must add a tax directory to the Storage Disk the first time you use the Partnership Edition for the new tax year. If you don't remember how, refer to Chapter 9 of the separate *User's Guide*. The tax directory you create by this process is completely independent of any tax directory created with any other edition of any other type or year.

**Translate next, if a prior-year user.** If you prepared any partnership returns last year using HowardSoft's Partnership Edition 2009, we recommend that you use the stored data for those returns as a starting point for this year by using the built-in "translate" feature. This approach minimizes the effort for most returns because text entries seldom need to be changed from year to year, carryovers are automatically placed on the proper lines (provided you kept the tax year on the Control Form for the prior-year return at 2008, as required for filing), and unchanged amounts need not be reentered. See Chapter 9 of the *User's Guide*.

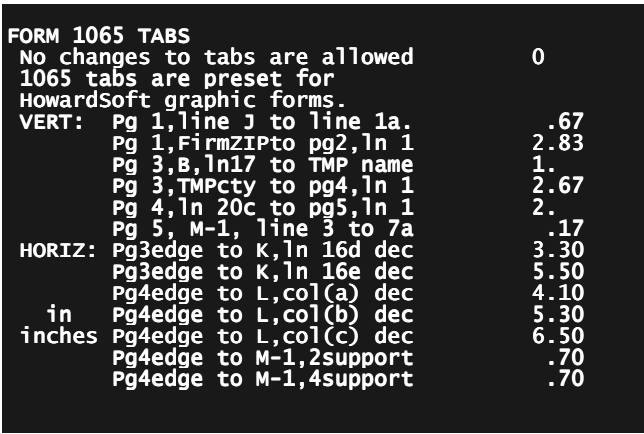
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## Form 1065 Tab Settings

### Form 1065 Tab Settings

**NEW: Tab settings for Partnership Edition cannot be changed.** The default tab settings are preset for HowardSoft graphic Form 1065 forms and can no longer be changed. Because we now include the graphic files for the main form (Form 1065) for all levels of the software, including the Economy Level, there is no longer a need for adjustment. The supplied tab settings (shown in Figure PAR-1) provide perfect alignment with HowardSoft forms for both Windows-graphic and Laser-graphic printing.

**Problems with tab settings may indicate incorrect printer setup.** If the supplied tab settings appear to give improper alignment with the built-in HowardSoft graphic forms, either your printer's typeface is wrong (such as elite size, which is 12 characters per inch, instead of pica size, which is 10 characters per inch), or your program settings for margin, auto-skip, characters per line, or lines per page are wrong, not your tab settings. For guidance on how to change the program settings for your printer, see Chapter 12 of the separate *User's Guide*.



```
FORM 1065 TABS
No changes to tabs are allowed          0
1065 tabs are preset for
HowardSoft graphic forms.
VERT:  Pg 1,line J to line 1a.          .67
       Pg 1,FirmZIto pg2,ln 1          2.83
       Pg 3,B,ln17 to TMP name         1.
       Pg 3,TMPcty to pg4,ln 1         2.67
       Pg 4,ln 20c to pg5,ln 1         2.
       Pg 5, M-1, line 3 to 7a          .17
HORIZ: Pg3edge to K,ln 16d dec          3.30
       Pg3edge to K,ln 16e dec          5.50
       Pg4edge to L,col(a) dec          4.10
       in  Pg4edge to L,col(b) dec          5.30
       inches Pg4edge to L,col(c) dec          6.50
       Pg4edge to M-1,2support          .70
       Pg4edge to M-1,4support          .70
```

Figure PAR-1. Tabs for ALL HowardSoft Forms: Windows-graphic, laser-graphic, and facsimile (Default)



### Form by Form Details

**Remainder of document supplements Chapter 2 of Tax Forms Guide.** Instructions for forms built into the Partnership Edition follow. However, when the same form exists in the Form 1040 software and does not differ significantly for the Form 1065 software, it is not detailed here and you should refer to the Tax Forms Guide 2010 Edition for details. Only forms with major differences in their use with Form 1065 returns are fully detailed here. For forms with minor differences, only the differences are described here.

### Control Form

**Purpose.** Like the Control Form for the Form 1040 software, the Control Form for the Partnership Edition allows you to customize certain calculations and automation of the return and its cover and billing letters. Unique to the Partnership Edition, however, is the ability to enter fiscal years other than the default calendar year. Unless the return you are preparing uses a fiscal year other than the calendar year (January 1 through December 31), your access of the Control Form is completely optional because it is automatically generated for all returns whether you access it or not.

**AUTOMATION CONTROL.** Calculations depend critically on these entries:

**Fiscal year beginning.** You need to enter a date here only if the fiscal year for the return is *NOT* the calendar year. You must enter the date in the standard month-day-year format separated by hyphens, slashes, or commas (xx/xx/xxxx). If you make no entry, the software assumes a starting date of January 1, 2009, and uses that date in all subsequent calculations. If the year part of your entry is a year before 2009, 2009 is assumed for the year and your entry is changed accordingly, since this 2010 Edition of the software applies only to fiscal years starting January 1, 2009 or later.

**Fiscal year ending.** Enter a date here if you entered a starting date above. This entry does not affect calculations, but is required for the printout of the Official Form 1065 and Schedules K-1 when the fiscal year is not the calendar year. The year part of your entry is automatically forced to be a year consistent with your entry for the start of the fiscal year.

**Tax year assumed by software.** *(auto-calc)* The tax year that will be used in all calculations is shown here. Without an entry for fiscal year the tax year is automatically 2009. Otherwise it is controlled by your date entry for the beginning of the fiscal year. The tax year entry is critical to numerous calculations. After you change the entry the entire return is recalculated following the rules for the new year. The tax year entry also controls how the data are transferred to next year's return with the software's "translate" feature. If you leave the entry at 2009, next year's translate will know to shift certain amounts to different lines, as required for such date-sensitive forms as Form 4562.

**Starting month assumed.** *(auto-calc)* The fiscal year's starting month used in all calculations is shown here. Without an entry for fiscal year the starting month is automatically 01 (January). Otherwise it is controlled by your date entry for start of the fiscal year, and is critical to the automatic depreciation calculations on Form 4562.

**Monetary amounts rounded to \$'s.** *(auto-calc)* This entry shows the rounding rule under which the return is calculated. It is automatically set to match your program settings for rounding when you start a new return, as detailed in Chapter 12 of the separate *User's Guide*. (For a translated return, the setting on the Control Form of the prior-year return is used.) Because partnership returns typically involve large dollar amounts, we recommend rounding to the nearest dollar to avert disconcerting penny discrepancies.

Although we allow you to block the auto-creation of Schedule D or Form 4797 in the next two entries, we recommend against it. The built-in automation is your safeguard against inadvertent omissions on your return, and very rarely is a blocking of this automation legitimate.

**Block Schedule D auto-creation?** Unless you answer Yes, Schedule D is automatically generated and completed upon the final recalculation of the return if a gain for Schedule D appears on any Form 6252.

**Block Form 4797 auto-creation?** Unless you answer Yes, Form 4797 is automatically generated and completed upon the final recalculation of the return if an amount on any Form 4684 or Form 6252 must be reported on Form 4797.

In addition to the above forms, pages 2, 3, 4, and 5 of Form 1065 are automatically generated once you create a Form 1065, page 1. Unlike Schedule D and Form 4797, their auto-creation cannot be defeated, since all five pages of Form 1065 are required together by the IRS.

**RETURN SUMMARY.** The tax summary shown here is determined from the results on Form 1065. It is used on printed cover letters to clients.

**Total income (or loss).** *(auto-calc)* Taken from line 8 of Form 1065.

**Total deductions.** *(auto-calc)* Taken from line 21 of Form 1065.

**ORDINARY INCOME (OR LOSS).** *(auto-calc)* Taken from 1065 line 22.

**Short-term capital gain(loss).** *(auto-calc)* Taken from line 8 of Schedule K (Page 4 of Form 1065).

**Long-term capital gain(loss).** *(auto-calc)* Taken from line 9a of Schedule K (Page 4 of Form 1065).

**OPTIONS FOR PAID PREPARERS.** The final section of the Control Form gives you control over the cover and billing letters for the return. It allows you to enter a date for both letters, a fee for the billing letter, and to add additional text for either letter. See the end of the Control Form section in Chapter 2 of the *Tax Forms Guide 2010 Edition* for more details.

## Form 1065 / Main Form

**Start of the Road Map.** Form 1065 is the main form for partnership returns, and forms the basis for the built-in Road Map. You should always start a new return with this form, regardless of what data entry method you use. When using the Road Map method of data entry, you can itemize to a supporting form as you encounter a line identified as a Road Map line by the letter r. You will then be following the logical order for the preparation of the return, so that the intermediate results that you see on the screen are meaningful.

### FORM 1065 PAGE 1

*The next few pages of this supplement detail the first page of the 5-page Form 1065. It contains general information about the partnership and summarizes the income and deductions for ordinary income.*

**PARTNERSHIP INFORMATION.** The first entries on Form 1065 identify the partnership.

**For tax year beginning.** *(auto-calc)* The entries you make on the Control Form for fiscal year starting and ending dates are reflected in this and the next three lines. If you make no entry on the Control Form, the software assumes that your fiscal year is calendar year 2009 (January 1, 2009 through December 31, 2009.)

**... & ending.** *(auto-calc lines)* Taken as the default or your entry on the Control Form for "fiscal year ending."

**Tax year assumed by software.** *(Road Map line, supported by the Control Form.)* This line is your path to the Control Form through the Road Map. The tax year is automatically 2009 unless you enter a different year in your fiscal year entries on the Control Form.

**Starting month assumed.** *(auto-calc)* The starting month is automatically 1 (January) unless you enter a different month in your fiscal year entries on the Control Form. The proper starting month is especially critical to the depreciation calculations on Form 4562.

**IRS Center for partnership return.** The city and state where the partnership return is filed must be entered based on the listings in Table PAR-2. This and the following entries are used in the printouts for all Schedules K-1.

**Name of partnership.** Enter the name of the partnership in 35 characters or less. The name should match the legal or trade name that the partnership used on the Form SS-4 that it submitted to apply for its Employer Identification Number (EIN). This name appears on the address label that the IRS supplies to the partnership for filing Form 1065. Because this entry is used in the header for all forms and schedules, it is required even though you may use an IRS-supplied address label on Form 1065.

**Number and street.** Enter the street address of the partnership in 35 characters or less.

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## Form 1065

**City or town, state.** Enter city and 2-letter state code in 25 characters or less.

**ZIP code.** Enter the 5-digit (00000) or 9-digit (00000-0000) ZIP code of the partnership.

**May the IRS discuss this return with the preparer shown on Form 1065, page 1?** Answer Yes to authorize the IRS to discuss this return with the paid preparer who is signing the return when necessary. Your answer will be shown in the signature block at the bottom of page 1 of Form 1065.

**Table PAR-2. IRS Centers for Filing Returns**

LOCATION OF PARTNERSHIP'S PRINCIPAL PLACE OF BUSINESS OR PRINCIPAL OFFICE OR AGENCY	SEND RETURN TO THIS ADDRESS:
Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	Department of the Treasury Internal Revenue Service Center Cincinnati, OH 45999-0011
For partnerships with year-end assets <u>less than \$10 million that do not file Schedule M-3:</u>	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011
For partnerships with year-end assets of <u>\$10 million or more (or less than \$10 million but file Schedule M-3 anyway):</u>	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011
<i>Year-end assets are shown on Form 1065, page 1, item F if you completed Schedule L (Form 1065).</i>	
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011
A foreign country or U.S. possession	Internal Revenue Service Center P.O. Box 409101 Ogden, UT 84409

**A Principal Business Activity.** Using the IRS-provided table as a guideline (on the last pages of the IRS Instructions for Form 1065), enter the general category for the partnership in 15 characters or less.

**B Principal Product/Service.** Using the IRS-provided table cited above as a guideline, enter the main product or service in 15 characters or less.

**C Business Code Number.** Enter the 6-digit code from the IRS table (on the last pages of the IRS Instructions for Form 1065) for the specific industry

## PAR-6

group that best describes the group for which the largest percentage of total year-end assets is used.

**D Employer ID number.** Enter the partnership's identifying number in its standard 10-character format (00-0000000). It must match the EIN assigned to the partnership as a result of the filing of Form SS-4, and should appear on the IRS-supplied address label. This entry is used in the header for all forms and schedules.

**E Date business started.** Enter the date in any standard format.

**Year-end assets shown on Schedule L.** *(auto-calc)* The total assets at the end of the fiscal year as it appears on line 14 of Schedule L (Form 1065 Page 5) is posted here automatically once you complete Schedule L. If there are no year-end assets, the total assets at the beginning of the tax year is used instead, in accordance with IRS instructions for line F. Note that Schedule L, and therefore this entry, may be unnecessary in some cases. See question 5 of Form 1065 Schedule B, detailed later, for more information.

**F Total assets.** *(auto-calc)* This line, which will appear on the printed Form 1065, is taken as the above line unless you override this result. The IRS allows you to submit your own balance sheet in lieu of Schedule L as long as it provides all the information required for Schedule L. If you elect to do so, you must override the automatic entry for this line with the amount from your own balance sheet. (To override the amount, you must press the Override Key, F8 or ctrl-O, then move the cursor to this line. See Chapter 7 of the *User's Guide* for details.)

**G Check if return is.** Answer Yes to all that apply:

- (1) **Initial return?** Answer Yes if this is the partnership's first tax return.
- (2) **Final return?** Answer Yes if the partnership is dissolving and this is the last return that the partnership will file.
- (3) **Name change?** Answer Yes if this return reflects a change in the name of the partnership since the last return that the partnership filed.
- (4) **Address change?** Answer Yes if this return reflects a change of address since the last return that the partnership filed.
- (5) **Amended return?** Answer Yes if this return modifies a previously filed return. *If you answer Yes to this question and Question 4 on Schedule B of Form 1065 (detailed later), the designated tax matters partner must file Form 8082: Notice of Inconsistent Treatment or Amended Return.*
- (6) **Technical termination?** Answer Yes if there was a sale or exchange of 50% or more of the interests in partnership capital and profits within a 12-month period. In this case, you must terminate the original partnership and start a new one based on the new interests. **CAUTION:** *If you answer Yes here, you must also answer Yes to (1) or (2), above.* Answer Yes to (1) for the new partnership, which starts immediately after the terminated partnership ends. Answer

Yes to (2) for the last return of the terminated partnership, which ends on the date the technical termination occurred.

**H Accounting method.** Answer Yes to only one of the following:

- (1) **Cash?** For cash basis partnerships.
- (2) **Accrual?** For accrual basis partnerships.
- (3) **Other?** For any other method, explained below.

**If (3), specify other.** If you answered Yes to (3), above, you **MUST** explain the method in this line, using a supporting statement for this line if you need more room. (You must use the F10 key or ctrl-Y, not the I key, to itemize this line, since it is not a numeric line.)

The software recognizes only the first Yes answer among the three.

**Number of Schedules K-1 prepared.** *(auto-calc)* The number of K-1 schedules already prepared for the return is displayed here automatically. Once the return has been completed you should check the number displayed here against the actual number of partners, entered below, to make sure that all required Schedules K-1 have been prepared. (If the partner count is greater than 100, you may have to file the return electronically. See page 3 of IRS 2009 Instructions for Form 1065.)

**I Number of Schedules K-1 attached.** Enter the actual total number of partners here. **CAUTION:** *When you are completely finished preparing the return, the above auto-calc line must match this entry or else you have not completed all required Schedules K-1.*

**Elect out of section 42(j)(5)?** A partnership is generally treated under section 42(j)(5) if it has 35 or more partners, where a husband and wife who are partners are together treated as one partner. However, a partnership that exercised a special election within a short period after the enactment of section 42(j)(5) late in 1988 is not treated under section 42(j)(5). Answer Yes here only if the election was made for this partnership.

**Section 42(j)(5) rules will be used.** *(auto-calc)* Answered Yes only if line I is 35 or more and the answer to the preceding question is No. This result is used in the Premium Level software to control the calculations for forms related to the Low-Income Housing Credit (Form 8586 for the credit and Form 8611 for its recapture) and the transfer of their amounts to Schedules K and K-1 calculation.

**J Are Schedules C and M-3 attached?** Schedules C (*Additional Information for Schedule M-3 Filers*) and M-3 (*Net Income (Loss) Reconciliation for Certain Partnerships*) are schedules that must be completed and filed by certain large partnerships (\$10 million in assets or \$35 million in receipts) and partnerships owned at least 50% by large partnerships. See IRS instructions for details on determining whether you must file Schedules C and M-3. (*Schedule M-3 replaces Schedule M-1, which appears on page 5 of Form 1065, for partnerships that are required to file the former.*)

**INCOME.** Lines 1 through 8 are used to report only taxable income that is NOT passed through to the partners. Income that is passed to partners is instead reported directly on Schedule K for distribution to each partner's Schedule K-1. For example, tax-exempt interest income is reported on Schedule K line 18a and other tax-exempt income is reported on Schedule K line 18b.

**1a Gross receipts or sales.** Enter all business income not separately stated on lines 4 through 7, below.

**1b Less returns and allowances.** Enter all returned sales, rebates, and special allowances and discounts.

**1c Balance.** *(auto-calc)* Computed as line 1a less line 1b.

**2 Cost of goods sold (Sch. A).** *(Road Map line, supported by Schedule A, Form 1065 Page 2.)* Because Form 1065 Page 2 is automatically created, any entry you make on this line will ALWAYS be overridden by the result on line 8 of Schedule A Form 1065 Page 2 upon the final recalculation of the return.

**3 Gross profit.** *(auto-calc)* Computed as line 1c less line 2.

**4 Ordinary income from other partnerships, estates, and trusts.** *(Supported by the Other Income Worksheet, Figure PAR-2.)* You MUST report the ordinary income from other entities on the supporting worksheets described next in order to satisfy the reporting requirements of the IRS.

**Net farm income (Sch. F).** *(Road Map line, supported by Schedule F.)* Up to five separate Schedules F are available for reporting income or loss from up to five separate farms. The sum of net profit or loss from all Schedules F is posted here automatically.

**Net fishing income.** Enter in a supporting statement for this line the partnership's fishing income. The supporting statement is required so that the printout of the return will indicate that fishing income is included in line 5, as required by the IRS.

**5 Net farm profit or loss.** *(auto-calc)* Computed as the sum of the above two lines.

**6 Net ordinary gain or loss from Form 4797.** *(Road Map line, supported by Form 4797.)* The ordinary income portion of gain or loss, as shown on line 17 of Form 4797, is posted here automatically, excluding the amount allocated to line 19 of Form 8825.

**7 Other income (loss).** Any other taxable income not reported on lines 1 through 6 should be entered here, but not income that is specially allocated to partners on Schedule K-1. Describe in a supporting statement for this line the sources of additional income, such as annuity income, insurance proceeds, and alcohol fuel credit (from Form 6478, which is built into the software only for the Premium Level). (Tax-exempt income is reported on Schedule K lines 18a and 18b, not here.)

**8 TOTAL INCOME (LOSS).** *(auto-calc)* Computed as the sum of lines 3 through 7.

Other Income Worksheet (from other partnerships, estates, and trusts), Figure PAR-2. (Supports line 4 of Form 1065, Page 1.) This worksheet is used to report ordinary income from other partnerships, estates, and trusts with the de-

OTHER INCOME	
1	Entity name
2	Address
3	Employer Identification No
4	Ordinary income (loss) <span style="float: right;">0</span>

**CAUTION:**  
Do NOT report portfolio, rental or inc from PTPs HERE. See at-risk/basis limit'ns if a loss.

Figure PAR-2. Other Income Worksheet (from other partnerships, estates, and trusts)

tail that the IRS requires. You should report only amounts reported by the entity for a tax year ending within the tax year of *THIS* partnership. Note that only ordinary income is reported here. Other income shown on the Schedule K-1 from the other partnerships and fiduciaries is reported elsewhere in the partnership return.

- 1 **Entity name.** Enter the name of the entity in 25 characters or less.
- 2 **Address.** Enter the address of the entity in 25 characters or less.
- 3 **Employer Identification No.** Enter the entity's EIN in the standard xx-xxxxxxx format.
- 4 **Net income or loss.** Enter the net income or loss reported to *THIS* partnership. The proper amounts are shown on the Schedule K-1 of Form 1065 from the other partnerships and the Schedule K-1 of Form 1041 from the fiduciaries.

The sum of line c for all worksheets is posted to line 4 when you return to Form 1065.

**DEDUCTIONS.** Lines 9 through 21 are used to report deductions that can be taken by the partnership and are NOT passed through to the partners.

**9 Salaries and wages.** When entering salaries and wages here, do not include amounts paid to partners nor amounts reported elsewhere (such as line 3 of Schedule A or line 18 or 19 of Form 1065 Page 1):

- Salaries/wages (except partners).** Enter TOTAL wages paid here.
- Less employment credit.** Enter employment credits from Forms 5884 (*Work Opportunity Credit*), 8844 (*Empowerment Zone Employment Credit*), 8845 (*Indian Employment Credit*), and 8861 (*Welfare-to-Work Credit*). CAUTION: Although Forms 5884 and 8861 are built into the Premium Level software, posting to this line is not automatic. Unless you qualify for an exception which you explained in a supporting statement for the credit form that applies, you must enter the credit here so that the deduction for wages is reduced by the amount of credit claimed.

**9 Salaries (less employment credits).** (*auto-calc*) Computed as indicated from the above two lines.

**10 Guaranteed payments to partners.** Enter here payments to partners that are guaranteed; that is, payments that are determined irrespective of partner-



ship income and are not portfolio income. This entry should include salaries for general partners and, if applicable, salaries for limited partners. This entry is automatically posted to line 4 of Schedule K for use in line 14a.

**11 Repairs and maintenance.** Only incidental repairs and maintenance are deductible here. Capital repairs, which add to the value of the property or prolong its life, are chargeable to capital accounts and may only be capitalized or amortized.

**12 Bad debts.** You may use the specific charge-off method or the reserve method, but you cannot change methods once you have made a bad debt claim on a prior return. *NOTE: Cash method partnerships can claim bad debts ONLY if the amount was previously reported as income.*

**13 Rent.** Enter rent on business property, but not rent paid for a partner's personal use of a dwelling. If the partnership leased a vehicle for a term of 30 days or more, you may have to reduce your entry by an inclusion amount, as described in our details in the main *Tax Forms Guide 2010 Edition* for line 9 of Schedule C under the heading "Inclusion amount from IRS Pub. 463." See IRS Pub. 463 for more details.

**14 Taxes and licenses.** Enter here only business property taxes and licenses associated with the trade or business of the partnership, and not reported elsewhere.

**15 Interest.** Interest passed through to partners is distinguished here from interest claimed by the partnership as a deduction:

**Investment interest passed to partners.** Enter here the interest expense on investment debts that is passed through to partners. This entry is posted to line 13b of Schedule K and distributed to each partner's Schedule K-1.

**Other interest passed to partners.** Enter here any interest expense that is NOT incurred in the trade or business of the partnership, but must be passed through to the partners instead. This entry is used in line 13d of Schedule K and distributed to each partner's Schedule K-1.

**Interest not claimed elsewhere.** Enter here any other interest that is deductible by the partnership and NOT passed through to partners.

**Total interest expense.** *(auto-calc)* The sum of the above three lines.

**Interest passed to partners.** *(auto-calc)* Computed as the sum of the first two interest items.

**15 Interest.** *(auto-calc)* Computed as the total interest less the interest passed to partners.

**16 Depreciation.** Depreciation is generally claimed by the partnership, but the first-year section 179 expense is passed through to partners.

**Depreciation for 1065 NOT claimed elsewhere.** *(Road Map line, supported by Form 4562.)* Any depreciation that is deductible by the partnership but is not claimed anywhere else in the return is reflected here. A separate copy of Form 4562 is reserved to support this line. After you complete this copy of Form 4562, total depre-

ciation is posted here, amortization is posted to line 20, below, and section 179 expense is posted to line 12 of Schedule K. The depreciation for this line is automatically excluded from line 16b, below, and appears on line 16c.

**Depreciation on Schedule A.** *(auto-calc)* Depreciation claimed on Schedule A (Form 1065, page 2), supported by its own copy of Form 4562, is posted here.

**Depreciation on Form 8825.** *(auto-calc)* Depreciation claimed on Form 8825, supported by its own copy of Form 4562, is posted here.

**Depreciation on Schedule F.** *(auto-calc)* Depreciation claimed on Schedule F, supported by its own copy of Form 4562, is posted here.

**Other depreciation not claimed elsewhere.** This entry is intended only for depreciation NOT reflected in the preceding four lines, such as depreciation that supports a form not built into the software.

**16a Depreciation (see instructions).** *(auto-calc)* Computed as the sum of the above preceding five depreciation lines.

**16b Less depreciation claimed on Schedule A and elsewhere.** *(auto-calc)* Computed as line 16a less the part of line 16a for Form 1065 and not claimed elsewhere.

**16c Balance.** *(auto-calc)* Computed as line 16a less line 16b, this result should match the amount from Form 4562 for "Depreciation for 1065 NOT claimed elsewhere."

**17 Depletion (excluding oil and gas).** If timber depletion is reported here, Form T (not built into the software) must be completed. Oil and gas depletion cannot be deducted by a partnership, but must be figured by each partner and deducted on the partner's return. Information on oil and gas depletion is therefore detailed at the end of Schedule K (line 20c of Form 1065, Page 4), not here, and is then distributed among the partners' Schedules K-1.

**18 Retirement plans, etc.** Enter only contributions made under a qualified retirement plan for the partnership's common-law employees. Payments made on behalf of partners, such as IRAs, Keoghs, SEP, and SIMPLE plans, are reported on line 13d of Schedule K, instead, for distribution to each partner's Schedule K-1. (Note that employers who maintain a retirement plan, whether qualified or not, generally must file an annual return for the plan, either Form 5500 or, if for a one-participant plan, Form 5500-EZ. This is not a part of the Form 1065 return, and is therefore not built into the software.)

**19 Employee benefit programs.** Enter contributions made for the partnership's common-law employees which are not part of a qualified retirement plan, but are part of other fringe benefits like health insurance and welfare programs.

**20 Other deductions.** All deductions not listed above are reported here:

**Amortization (Form 4562).** *(Road Map line, supported by Form 4562.)*

Any amortization that is deductible by the partnership but not claimed anywhere else in the return is reflected here. A separate copy of Form 4562 is reserved to support this line along with line

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Form 1065

16. After you complete this copy of Form 4562, total amortization is seen here, depreciation is seen on line 16c, above, and section 179 expense is seen on line 12 of Schedule K.

**Other deductions (itemize).** Enter any other allowable deductions here.

This line *MUST* be supported by a supporting statement to explain the deduction. For special rules concerning meals and entertainment, which are subject to a 50% reduction, see the IRS Instructions for Form 1065.

**20 Other deductions.** *(auto-calc)* Computed as the sum of the above two entries.

**21 TOTAL DEDUCTIONS.** *(auto-calc)* Computed as the sum of line 9 through line 20.

**22 ORDINARY INCOME (LOSS).** *(auto-calc)* Computed as line 8 less line 21. This result is automatically transferred to line 1 of Schedule K for distribution to each partner's Schedule K-1.

**Road map to other pages of Form 1065.** Each of the four pages of Form 1065 operates in the software like a separate form. Nevertheless, you can access the remaining three pages through the following lines at the end of Form 1065 Page 1 (as well as through the Forms Menu as separate forms):

**Itemize to access Schedule A and B.** *(Road Map line, supported by Form 1065 Pages 2 and 3.)* This line provides access to Form 1065 Pages 2 and 3. (If you followed the Road Map you have already accessed these schedules by itemizing Form 1065, line 2.)

**Itemize to access Schedule K.** *(Road Map line, supported by Form 1065 Page 4.)* This line is provided for easy access to Schedule K, which appears on page 4 of Form 1065 and is the logical next page to complete once Form 1065 pages 1, 2, and 3 are complete.

**Itemize to access Schedules L, M-1, and M-2.** *(Road Map line, supported by Form 1065 Page 5.)* This line is provided for easy access to Form 1065 Page 5, which must be completed unless the answers to all parts of Question 6 of Schedule B are Yes.

### FORM 1065 PAGES 2 AND 3 (Schedules A and B)

*The next few pages of this supplement detail the second and third page of the 5-page Form 1065. It contains Schedule A, Schedule B, and a section for designating a tax matters partner.*

**SCHEDULE A - COST OF GOODS SOLD.** This schedule is used to compute the cost of goods associated with the sales reported on line 1 of Form 1065 Page 1. The result on line 8 of this schedule is automatically posted to line 2 of Form 1065.

**1 Inventory at beginning of year.** Enter inventory on hand at the beginning of the tax year. This entry should generally match the ending inventory reported on the prior-year Schedule A. If it does not, the difference must be explained in a general itemized list.

**2 Purchases less personal use.** Purchases for goods sold are reported here:

**Total purchases.** Enter only purchases related to goods sold.

**Part for personal use.** Enter all items in the above withdrawn by any of the partners for personal use.

**2 Purchases less personal use.** *(auto-calc)* Computed as "Total purchases" less "Part for personal use."

**3 Cost of labor.** Enter wages and other labor costs attributed to goods sold only.

**4 Additional section 263A costs.** An entry is appropriate here ONLY if the partnership elects a simplified accounting method under section 263A. Enter in a supporting statement for this line an itemized list of additional costs or capitalized amounts resulting from the use of this method. See IRS instructions for details.

**5 Other costs.** All costs not listed above are reported here:

**Depreciation (Form 4562).** *(Road Map line, supported by Form 4562.)* A separate copy of Form 4562 is reserved to support this line. Depreciation on equipment used in the production of the goods sold should be reported here. After you complete Form 4562, total depreciation on line 22 of the form (which excludes any section 179 deduction) is automatically posted to this line, total amortization is posted to the line below, and any section 179 deduction on line 12 of the form is automatically passed through to the partners through line 12 of Schedule K. The entry that appears here is also involved in the calculation of lines 16a and 16b of Form 1065 Page 1.

**Amortization (Form 4562).** *(Road Map line, supported by Form 4562.)* The copy of Form 4562 that supports the above line also supports this line. The result on line 44 of that form is posted here.

**Other costs (itemized).** Any other deductible costs associated with goods sold should be detailed here in a general itemized list.

**5 Other costs.** *(auto-calc)* Computed as the sum of the above 3 lines.

**6 TOTAL.** Add lines 1 through 5. *(auto-calc)* Computed as described.

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Form 1065 (Schedules A and B)

**7 Inventory at end of year.** Enter inventory on hand at the end of the tax year.

**8 COST OF GOODS SOLD.** *(auto-calc)* Computed as line 6 less line 7, this result is automatically posted to line 2 of Form 1065 Page 1.

**9a Method for closing inventory.** You must answer Yes for ALL methods that apply:

(i) **Cost?** Answer Yes for the cost method as defined in IRS regulations section 1.471-3..

(ii) **Lower of cost or market?** Answer Yes for the method as defined in IRS regulations section 1.471-4.

(iii) **Other (specify below)?** Answer Yes for any other method. If you answer Yes here, you must specify the method on the next line and explain the method in a supporting statement for the line.

**Specify method and explain.** If (iii) is Yes, specify the method here in 29 characters or less. In addition, explain the method in a supporting statement for this line. The method you enter here will then be printed on the official form followed by a cross-reference to the supporting statement that explains it. *(Because this is a text entry line, you must use the F10 key or ctrl-Y, not the I key, to itemize this line in order to provide the explanation.)*

**9b Writedown of "subnormal" goods?** Answer Yes only if the method conforms with IRS regulations section 1.471-2(c).

**9c LIFO inventory method adopted this tax year for any goods?** Answer Yes if using the Last In-First Out inventory method for any items.

**You MUST attach Form 970.** *(auto-calc)* Automatically Yes if you answered Yes to 9c, this line is provided to alert you that you must attach a completed Form 970, *Application to Use LIFO Inventory Method*, or a supporting statement that supplies the same information as requested in the form. (Form 970 is not built into the software.)

**9d Do the rules of section 263A apply to the partnership?** Answer Yes if section 263A applies with respect to property produced or acquired for resale.

**9e Was there any change in inventory method?** Answer Yes if any change was made in determining quantities, costs, or valuations between opening inventory (line 1) and closing inventory (line 7).

**If yes, attach explanation.** If you answer Yes to 9e, you MUST explain the change in a supporting statement for this line.

**SCHEDULE B - OTHER INFORMATION.** This schedule is used to report other information about the partnership's organization and its foreign connections.

**1 What type of entity is filing this return?** Enter 1, 2, 3, 4, 5, or 6 as follows:

**1=Domestic general partnership.** Unless this is a foreign partnership, enter 1 if there are no limited partners but only general partners who are personally liable for the obligations of the partnership).

## Form 1065 (Schedules A and B)

- 2=Domestic limited partnership.** Unless this is a foreign partnership, enter 2 if the partnership consists of at least one general partner plus limited partners (whose liability is limited to that partner's investment in the partnership).
- 3=Domestic limited liability company.** Unless this is a foreign partnership, enter 3 if the partnership was formed under state law by filing articles of organization as a Limited Liability Company (LLC). None of the members of an LLC are personally liable for its debts.
- 4=Domestic limited liability partnership.** Unless this is a foreign partnership, enter 4 if the partnership was formed under state law as a Limited Liability Partnership (LLP). Members of an LLP are generally not liable for the debts of the LLP or any other partners.
- 5=Foreign partnership.** Enter 5 for *all* types of foreign partnerships.
- 6=Other.** If none of the above, enter 6 and explain the type of entity in the next line.

**Explain if Other.** Enter the type of entity here if types 1 through 5 do not apply to this partnership. See page 2 of the IRS Instructions for Form 1065 for details on what comprises each type of entity.

**2 Was any partner in this partnership a cited entity?** Answer Yes if any partner is a disregarded entity, a partnership, a trust, an S corporation, an estate, or a nominee.

**3 At the end of the tax year:**

**a Did any foreign or domestic corporation, partnership, or trust, or tax-exempt organization own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership?** If Yes, you must complete the new Schedule B-1, which is accessible from the next line.

**If Yes, itemize to Schedule B-1 here.** (*Road Map line, supported by Schedule B-1.*) You must supply, on Schedule B-1, information on all entities for which a Yes answer to line 3a applies.

**b Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership?** If Yes, you must complete the new Schedule B-1, which is accessible from the next line.

**If Yes, itemize to Schedule B-1 here.** (*Road Map line, supported by Schedule B-1.*) You must supply, on Schedule B-1, information on all individuals and estates for which a Yes answer to line 3b applies.

**4 At the end of the tax year, did the partnership:**

**a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation?** If Yes, you must itemize the next line.

**If Yes, itemize worksheet here.** (*Supported by the Schedule B Line 4a Worksheet, Figure PAR-3.*) You must supply, on the supporting

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Form 1065 (Schedules A and B)

worksheets, information on all corporations for which a Yes answer to line 4a applies.

**Schedule B Line 4a Worksheet.** You must identify ALL corporations in which the partnership has the interest stated in line 4a.

**i Name of Corporation.**

Enter the name in 30 characters or less.

**ii Employer ID Number.**

Enter the corporation's EIN in the standard xx-xxxxxxx format.

**iii Country of Incorporation.**

Enter the country in 11 characters or less. (Use a standard abbreviation when necessary.)

**iv Percentage Owned in the voting stock of the corporation.**

Enter the partnership's percentage of ownership of the corporation, from 0 to 100.

**SCH B LINE 4A WORKSHEET**

**i Name of Corporation .....**

**ii Employer ID Number .....**

**iii Country of Incorporation ..**

**iv Pct. Owned in Voting Stock  
(Enter % from 0% to 100%)**

**Figure PAR-3 Schedule B Line  
4a Worksheet**

**b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership or the beneficial interest of a trust? If Yes, you must itemize the next line.**

**If Yes, itemize worksheet here.** (*Supported by the Schedule B Line 4b Worksheet, Figure PAR-4.*) You must supply, on the supporting worksheets, information on all partnerships or trusts for which a Yes answer to line 4b applies.

**Schedule B Line 4b Worksheet.** You must identify ALL partnerships and trusts described on line 4b.

**i Name of Entity.** Enter the name in 30 characters or less.

**ii Employer ID Number.** Enter entity's EIN in the standard xx-xxxxxxx format.

**iii Type of Entity.** Enter partnership or trust.

**iv Country of Organization.** Enter the country in 11 characters or less, using a standard abbreviation when necessary.

**v Maximum Percentage Owned in Profit, Loss, or Capital.** Enter the percentage for the classification with the highest percentage of ownership, from 0 to 100.

**SCH B LINE 4B WORKSHEET**

**i Name of Entity .....**

**ii Employer ID Number .....**

**iii Type of Entity .....**

**iv Country of Organization ..**

**v Maximum Percentage Owned .  
Enter maximum % (from 0%  
to 100%) of ownership of  
profit, loss, or capital.**

**Figure PAR-4. Schedule B Line  
4b Worksheet**

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## Form 1065 (Schedules A and B)

**5 Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year?** Most partnerships are subject to consolidated partnership audit procedures under IRS sections 6221 and 6234. However, small partnerships (10 or fewer partners, who are all individuals) are exempt from this requirement. Nevertheless, a small partnership can elect to be subject to consolidated partnership audit procedures by either filing Form 8893 or attaching a signed statement to the partnership return the first year to which it applies. Answer Yes here if you have made such an election. If you answer Yes, see "Designation of Tax Matters Partner" below line 17.

**6 Does this partnership meet all 4 of the following requirements?** The answer to this question is Yes *ONLY* if the answers to *ALL FOUR* of the following questions is Yes:

- a Total Receipts under \$250,000?** *(auto-calc)* Automatically answered Yes if your entry for line 1a of Form 1065, page 1 (Gross receipts or sales) is under \$250,000. Otherwise, No.
  - b Year-end assets under \$1 million?** Answer Yes if the partnership's total assets are under \$1,000,000. You must answer this question yourself because it is not always available elsewhere on the return, since some partnerships do not have to complete Schedule L (Form 1065) nor line F of Form 1065, page 1.
  - c. Are all Schedules K-1 filed with the return and furnished to partners by the filing deadline of the partnership return (including extensions)?** Answer Yes if applicable.
  - d. Is the partnership exempt from filing Schedule M-3?** Answer Yes only if not filing Schedule M-3 and not required to do so.
- If Yes, Schedules L, M-1, and M-2, line F on 1065 page 1, and line L on Schedule K-1 are not required.** *(auto-calc)* Automatically Yes only if the answer to *ALL FOUR* of the preceding questions is Yes. Many independent family partnerships meet these requirements. If the answer is Yes, the partnership is not required to complete Schedules L, M-1, and M-2 (which appear on Form 1065 Page 5), nor line F of Form 1065 Page 1, nor line L of each partner's Schedule K-1.

**7 Is the partnership a publicly traded partnership?** See IRS Code section 469(k)(2) for IRS's definition of a publicly traded partnership. Your answer here is posted to Question H of every copy of Schedule K-1.

**8 During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of debt?** Answer as indicated.

**9 Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?** Answer as indicated.

**Tax shelter registration number.** Enter here the tax shelter registration number, if any, from the previously-filed Form 8264 (the form formerly used to



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Form 1065 (Schedules A and B)

apply for a tax shelter number, now obsolete) or other source. The IRS discontinued the issuance of tax shelter numbers after October 22, 2004, so only older partnerships that are tax shelters (what the IRS now calls "registration-required tax shelters") would have a number. (There is no longer a line on Schedule K-1 for this number, so the partnership can no longer rely on Schedule K-1 to report the number to a partner. The entry is still here only for record-keeping purposes. It is not used anywhere else on the return.)

**10 At any time during calendar year 2009, did the partnership have an interest in or a signature or other authority over a bank account, securities account, or other financial account in a foreign country?** You may be able to answer No, even though the partnership has such a foreign interest, if all accounts combined had less than \$10,000 value throughout the year or the accounts were held at a U. S. military banking facility operated by a U. S. financial institution, or the partnership owns 50% or less of a foreign bank account, security account, or other financial account.

**If yes, name the foreign country.** If you answered Yes to Question 10, enter the name of the country in 29 characters or less.

**11 During the tax year did the partnership receive a distribution from? or was it the grantor of? or was it the transferor to?**

... **a foreign trust.** If you answer Yes to any of the questions, you may have to file an annual report on a Form 3520, and the trust must file a Form 3520-A.

**12a Is the partnership making, or had it previously made (and not revoked), a section 754 election?** You may elect to adjust the basis of partnership property under Section 754. To make this election you must submit a signed statement with the return. See IRS instructions for "Elections Made by the Partnership" for details.

**12b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)?** If Yes, you must show the computation and allocation of the basis adjustment in a supporting statement for this line.

**12c Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss or substantial basis reduction?** If Yes, you must show the computation and allocation of the basis adjustment in a supporting statement for this line.

**13 During the current or prior tax year, did the partnership distribute any property received in a like-kind exchange or contributed such property to another entity?** Answer as indicated. *EXCEPTION: Answer No if the other entity is wholly-owned by the partnership throughout the tax year.*

**14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?** Answer as indicated.

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## Form 1065 (Schedules A and B)

**15 If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached.** Enter the number as indicated.

**16 Does the partnership have any foreign partners?** Answer as indicated.

**If yes, enter the number of Forms 8805 filed for this partnership.** Enter the number as indicated.

**17 Number of Forms 8865 attached to this return.** A domestic partnership may have to file this form (not built into the software) if it had an interest in a foreign partnership. See IRS *Instructions for Form 1065* for details.

**DESIGNATION OF TAX MATTERS PARTNER.** If you are subject to the rules for consolidated audit procedures in IRS sections 6221 through 6234, or you answered Yes to question 4, you may designate a partner with whom the IRS will deal in tax matters. Enter the name, address, phone number, and ID number (social security number for individuals, and employer identification number for others) of the designated tax matters partner (TMP) here. If the designated TMP is an entity, also supply the name of the individual who is the TMP representative. (Note that only small partnerships -- 10 or fewer partners -- and individuals are exempt from the cited rules, unless they elected to be subject to these rules.)

**FORM 1065 PAGE 4 (Schedule K)**

*The next few pages of this supplement detail the fourth page of the 5-page Form 1065. It contains only Schedule K.*

**SCHEDULE K - PARTNERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC.** Schedule K is the summary of totals that are distributed to partners for reporting on their own returns. Each partner's share of the amounts on Schedule K is determined from the sharing percentages specified on line D of each partner's Schedule K-1 and the distribution methods specified on the Distribution Worksheet (described at the end of this supplement). Accordingly, Schedule K must be completed before any Schedule K-1 is prepared. Several lines on Schedule K must be supported by a general itemized list to provide the detail that the IRS and the individual partners need. The subordinate lines on our Schedules K and K-1 that are not part of the official IRS schedules are printed as part of the supporting statements for the schedule. In addition, whenever a line on Schedule K is supported by a general itemized list, that list is generally printed with each Schedule K-1 as well, with all amounts reduced to the appropriate share for that partner. If, however, an exception exists for a particular partner, the corresponding line on that partner's Schedule K-1 can be separately itemized, and the separate list is printed as the supporting statement for that partner, and the itemized list from Schedule K is printed for all other partners with the partners' shares appropriately readjusted. (You can access Schedule K through the Road Map from the last screen of Form 1065, Page 1.)

**Collectibles (28% rate) gain or loss and unrecaptured section 1250 gain must still be reported to partners.** Even though special lines for these items have been dropped from most IRS forms, transactions that fall into these categories must still be identified to partners. They are now reported to partners at lines 9b and 9c of Schedule K-1 for use on the partners' Schedule D (Form 1040) in computing the proper capital gains tax. However, the software takes care of this reporting automatically based on your entries on the various gain/loss worksheets for the supported forms.

**INCOME (LOSS).** Income items are reported on lines 1 through 11.

**1 Ordinary business income (loss).** (auto-calc) Taken from line 22 of Form 1065 Page 1.

**2 Net rental real estate income (loss).** (auto-calc) Taken from line 21 of Form 8825.

**3 Other rental activities.** Report here the income and expenses for all rental activities other than rental real estate:

**Gross income from Form 4835.** (Road Map line for Standard and Premium Level software, supported by Form 4835.) The total on line 7 of Form 4835 is reported here, for use in line 3a, below.

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## Form 1065 (Schedule K)

**Gross income from other rental activities.** Enter here gross income before deductions for all other rental activities not from rental real estate.

**3a Gross income from other rental activities.** (*auto-calc*) Computed as the sum of the preceding two amounts.

**Expenses from Form 4835.** (*Road Map line for Standard and Premium Level software, supported by Form 4835.*) The total on line 37 of Form 4835 is reported here for use in line 3b, below.

**Expenses from other rental activities (itemize).** Itemize in a supporting statement for this line expenses for all other rental activities not from rental real estate.

**3b Expenses from other rental activities.** (*auto-calc*) Computed as the sum of the preceding two amounts.

**3c Net from other rental activities.** (*auto-calc*) Computed as line 3a less line 3b.

**4 Guaranteed payments.** Composed of two parts:

**Guaranteed payments from 1065 line 10.** (*auto-calc*) Automatically transferred from line 10 of Form 1065 Page 1, this is generally the total salaries paid to partners.

**Capital guaranteed payments.** Enter here the guaranteed payments to partners that the partnership cannot deduct on Form 1065 but must capitalize instead.

**4 Guaranteed payments to partners.** (*auto-calc*) Computed as the sum of the above two lines.

**5 Interest income.** Enter only taxable interest received.

**6 Dividends:**

**6a Ordinary dividends.** Include only taxable ordinary dividends, generally reported to you in box 1a of a Form 1099-DIV.

**6b Qualified dividends.** These are ordinary taxable dividends included in line 6a, above, that qualify for a lower tax rate for the individual, generally reported to you in box 1b of a Form 1099-DIV.

**7 Royalties.** Enter royalty income.

**8 and 9 Capital gains:**

**Short-term capital gain (loss) from Schedule D.** (*Road Map line, supported by Schedule D.*) The part of line 5 of Schedule D that is portfolio income or loss is posted here.

**Specially allocated short-term capital gain (loss).** Enter here short-term capital gains and losses that are not reported on Schedule D because they are specially allocated to partners.

**8 Net short-term capital gain (loss).** (*auto-calc*) Computed as the sum of the above two lines.

**Long-term net from Schedule D.** (*Road Map line, supported by Schedule D.*) The part of Schedule D, line 11 that is portfolio in-

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Form 1065 (Schedule K)

come or loss is posted here. The part that is *not* portfolio income or loss is posted to line 11 of Schedule K, not here.

**Specially allocated long-term capital gain (loss).** Enter here long-term capital gains and losses that are not reported on Schedule D because they are specially allocated to partners.

**9a Net long-term capital gain (loss).** (*auto-calc*) Computed as the sum of the above two lines.

**28% rate gain (loss) in line 9a from Schedule D.** (*Road Map line, supported by Schedule D.*) The collectibles part of Schedule D, line 11 that relates to portfolio income (the full amount of which is reported at Schedule K, line 9a, above) appears here.

**28% rate gain (loss) specially allocated in line 9a.** Enter the part of the specially allocated amount you entered in line 9a that is 28% rate (collectibles) gain or loss.

**28% rate gain (loss) from non-portfolio income reported on Schedule D.** (*Road Map line, supported by Schedule D.*) The collectibles part of Schedule D, line 11 that relates to *non*portfolio income (the full amount of which is reported in Schedule K, line 11, later) appears here.

**Other 28% rate gain (loss).** Enter any other 28% rate (collectibles) gain or loss that must be reported to partners for use in computing the amount for line 18 of their Schedule D (Form 1040).

**9b Collectibles (28%) gain (loss).** (*auto-calc*) Computed as the sum of the above four lines.

**Sec. 1231 unrecaptured sec. 1250 gain in Form 4797 Part III.** (*Road Map line, supported by Form 6252.*) This is the unrecaptured section 1250 gain reported in Part III of Form 4797 and included in Part I of Form 4797, but excluding any amount flowing to Form 6252.

**Sec. 1231 unrecaptured sec. 1250 gain from Form 6252.** (*Road Map line, supported by Form 6252.*) This is the unrecaptured section 1250 gain allocated to the current year from Form 6252, and therefore included in Part I of Form 4797.

**Sec. 1231 unrecaptured sec. 1250 gain from Schedules K-1.** (*Road Map line, supported by Form 6252.*) This is the unrecaptured section 1250 gain reported to the partnership by other partnerships allocated to the current year from Form 6252, and included in Part I of Form 4797.

**Other unrecaptured sec. 1250 gain.** Enter any other unrecaptured section 1250 gain that must be reported to partners for use in computing the amount for line 19 of their Schedule D (Form 1040).

**9c Unrecaptured section 1250 gain.** (*auto-calc*) Computed as the sum of the above four lines.

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**10 Net section 1231 gain (loss).** (*Road Map line, supported by Form 4797.*) Taken from line 7 of Form 4797, this is the total gain or loss on Form 4797 that is treated as a long-term capital gain or loss.

**11 Other income or loss.** This is an omnibus line for amounts not reported in lines 1 through 10. These amounts are reported on each partner's Schedule K-1 using codes defined by the IRS.

**IRS-coded amounts for line 11.** There are 5 specific categories defined as codes A through E:

**Code A – Other portfolio income.** Enter portfolio income or loss not included in lines 5 through 10.

**Code B – Involuntary conversions.** (*Road Map line, supported by Form 4684.*) The gain or loss on involuntary conversions due to casualty or theft is posted here from Form 4684 lines 44a, 44b, and 45.

**Code C – Section 1256 contracts.** (*Road Map line for Premium Level software, supported by Form 6781.*) The amount on line 5 of Form 6781 is reported here.

**Code D – Mining exploration costs recapture. nvoluntary conversions.** Enter as indicated.

**Code E – Cancellation of debt.** Enter the amount reported to the partnership on a Form 1099-C.

**Amounts for line 11 not IRS-coded.** The last code, code F, is used for all remaining amounts that have no code of their own:

**Specially allocated ordinary gain or loss.** Enter here other specially allocated amounts not included in the preceding lines.

**Gains from section 1252 property.** The recapture on the disposition of section 1252 property is entered here rather than Part III of the partnerships Form 4797. The amounts reported here are used individually by the partners in their separate Forms 4797. You should therefore provide in a general itemized list all information that each partner will need to complete his or her Form 4797.

**Net gain/loss under section 751(b).** Any income or loss to the partnership from unrealized receivables, substantially appreciated inventory, and other items under section 751(b) must be reported here.

**Short-term non-portfolio gain or loss from Schedule D.** (*Road Map line, supported by Schedule D.*) The part of line 5 of Schedule D that is *NOT* portfolio income or loss is posted here.

**Long-term non-portfolio gain or loss from Schedule D.** (*Road Map line, supported by Schedule D.*) The part of line 13 of Schedule D that is *NOT* portfolio income or loss is posted here.

**Other income/loss (itemize).** Enter in a supporting statement for this line any other income not included in prior entries, such as gambling gain or loss reported under section 165(d), gains from sec. 1254 dispositions, and gain on the sale of sec. 1202(c) small business stock. Clearly identify the separate components. You can also use this line to provide details that partners need concerning amounts that are subject to special treatment on their own returns, such as

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amounts eligible for up to 50% exclusion of gain under Section 1202. See IRS instructions for details.

**Code F – Total Other income (loss).** *(auto-calc)* Computed as the sum of the preceding uncoded amounts.

**11 Other income (loss).** *(auto-calc)* Computed as the sum of amounts for codes A through F.

**DEDUCTIONS.** Deductible items are entered on lines 12 through 13e.

**12 Section 179 expense deduction.** Based on:

**Sec 179 for other 1065 depreciation.** *(auto-calc)* Transferred from line 12 of the copy of Form 4562 that is attached to line 16 of Form 1065 Page 1.

**Sec 179 for Schedule A depreciation.** *(auto-calc)* Transferred from line 12 of the copy of Form 4562 that is attached to line 5 of Schedule A, Form 1065 Page 2.

**Sec 179 for Schedule F depreciation.** *(auto-calc)* Transferred from line 12 of all copies of Form 4562 that are attached to line 16 of all Schedules F.

**Sec 179 for Form 8825 depreciation.** *(auto-calc)* Transferred from line 12 of the copy of Form 4562 attached to line 14 of Form 8825.

**Sec 179 not included above.** Enter here any additional section 179 deduction not included in the copies of Form 4562 identified above.

**Section 179 amount disallowed.** *(auto-calc)* Section 179 deductions are generally limited to \$250,000 for tax years in 2009 (or the higher limit for enterprise zone property as described in the instructions for Form 4562 in Chapter 2 of the *Tax Forms Guide 2010 Edition*). The amount by which the section 179 amounts on the preceding five lines collectively exceed the ceiling is computed here. ***CAUTION: Further limitations may apply if the section 179 expense exceeds the net income of the partnership.*** (The deduction is typically limited to the net income of the partnership, but see the official instructions for Form 4562 for details. If a further limitation applies, you must override this line with the proper limitation.)

**12 Section 179 expense deduction (Form 4562).** *(auto-calc)* Computed as the sum of the first five lines less the above disallowed amount.

**HINT:** Since the section 179 ceiling is applied to the partnership as a whole, and then the limited amount is divided among partners, the deduction available to each partner can be quite small when there are a large number of partners in the partnership. This deduction is therefore seldom used by large partnerships.

**13 Contributions.** Charitable contributions should be separated by category of deductibility so that partners can properly limit the contributions on their own returns. The separate categories are assigned codes by the IRS for reporting the partners' shares on Schedules K-1. See Table 2-8 in the Schedule A section in Chapter 2 of the *Tax Forms Guide 2010 Edition* for guidelines on how to separate contributions.

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**Cash contributions limited to 50% of AGI.** Itemize in a supporting statement for this line contributions that are deductible only to the extent of 50% of the partner's adjusted gross income.

**Cash contributions limited to 30% of AGI.** Itemize in a supporting statement for this line contributions that are deductible only to the extent of 30% of the partner's adjusted gross income.

**Noncash contributions limited to 50% of AGI.** Itemize in a supporting statement for this line contributions that are deductible only to the extent of 50% of the partner's adjusted gross income.

**Noncash contributions limited to 30% of AGI.** Itemize in a supporting statement for this line contributions that are deductible only to the extent of 30% of the partner's adjusted gross income.

**Capital gain property limited to 30% of AGI.** Itemize in a supporting statement for this line contributions of capital gain property to a 50% organization, which are deductible only to the extent of 30% of the partner's adjusted gross income.

**Capital gain property limited to 20% of AGI.** Itemize in a supporting statement for this line contributions of other capital gain property, which are deductible only to the extent of 20% of the partner's adjusted gross income.

**Cash contributions limited to 100% of AGI.** Itemize, in a supporting statement for this line, qualified contributions limited only to AGI, not a fraction of it. The only qualified contributions cited in IRS Pub. 526 (*Charitable Contributions*) for 2009 are qualified conservation contributions (QCCs) of farmers and ranchers (rather than the 50% limit that normally applies to QCCs). (In the past, selected disaster relief efforts have been added to this category, but there is none for 2009.)

**13a Charitable contributions.** *(auto-calc)* Computed as the sum of the above six amounts.

**Noncash contributions over \$500?** *(auto-calc)* Answered Yes if the noncash part of line 13a (the last four components of line 13a) is more than \$500. **CAUTION:** *If Yes, you must file Form 8283 to report details on the contributions.*

**Itemize here for Form 8283.** *(For Standard and Premium Levels only: Road Map line, supported by Form 8283.)* This line is provided for easy access to Form 8283, so that you can supply the required information for a Yes answer to the preceding question. It appears only in the Standard and Premium Level software, since Form 8283 is not built into the Economy Level software.

**13b Investment interest expense.** *(auto-calc)* Taken as the amount identified above line 15 of Form 1065 Page 1 as the amount of investment interest to be passed through to partners.

**13c Section 59(e)(2) expenditures.** Section 59(e) allows partners to deducted certain expenses over a 3 or 10 year period, but each partner makes his or her own election.



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- (1) **Type.** Enter the type of expenditure and the period over which the expense is ratably deducted. If you need more room, provide the information in a supporting statement for the *next* line.
- (2) **Amount.** Enter the total qualified expenditures to which the section 59(e) election applies. If more than one type, itemize *this* line to provide a supporting statement, entering each type for (1) in the text column and each amount for (2) in the amount column.

See IRS Instructions for Form 1065 for details.

### 13d Other deductions. Based on:

**Interest not incurred in trade or business of the partnership.** *(auto-calc)*

Taken from the entry above line 15 of Form 1065 Page 1 that relates to interest passed to partners other than investment interest.

**Deductions related to portfolio income.** Enter in a supporting statement for this line all deductions clearly allocable to portfolio income that are subject to the 2% of AGI floor on partners' Schedule A (Form 1040).

**Net loss from Form 4684.** *(Road Map line, supported by Form 4684.)*

The casualty or theft loss from line 38 of Form 4684 is posted here. This amount can be deducted by individual partners as a miscellaneous expense on Schedule A of their own returns.

**Other deductions (itemize).** Enter in a supporting statement for this line any other deductions not included above, clearly identify the separate components. See IRS instructions for examples of what to report.

**13e Other deductions.** *(auto-calc)* Computed as the sum of the above three lines.

**SELF-EMPLOYMENT.** Self-employment income or loss generated for partners is reported here.

**14a Net earnings from self-employment.** Whereas the income reported on lines 1 and 3, and sometimes line 2, of a general partner's Schedule K-1 is generally considered self-employment income, only the amount on line 4 is considered self-employment income to a limited partner. The IRS provides a special worksheet in its instructions for this line which take this distinction into account. The results from that worksheet are entered on line 14a as follows:

**Ordinary income to general partners.** Enter here the portion of lines 1 through 3 of Schedule K that represents income to all general partners taken as a whole.

**Guaranteed payments from line 4.** *(auto-calc)* Taken from line 4 of this schedule.

**Other amounts or adjustments for line 14a.** This line allows the adjustment of the total to appear on line 14a of Schedule K. It should include any special allocations, distributions to special types of partners, and general partners' portions of certain amounts on Form 1065 (excluding interest income earned on notes and accounts receivable), net income or loss from rental of real estate, and net gain

or loss from Form 4797. See the IRS worksheet on page 28 of the IRS Form 1065 Instructions for details.

**14a Net earnings from self-employment.** *(auto-calc)* Computed as the sum of the above three amounts.

**14b Gross farming/fishing income.** Enter the amount of farming or fishing income that can be used by partners in their Schedule SE (Form 1040) under the Farm Optional Method for the self-employment tax.

**14c Gross non-farm income.** Enter the amount of non-farm income that can be used by partners in the computation of their self-employment tax under the Non-farm Optional Method on Schedule SE (Form 1040).

**CREDITS.** Tax credits related to housing and rentals are reported on lines 15a through 15e, and other credits are reported on line 15f. (Note that credit recapture, formerly reported at line 15f along with credits, is now reported at line 20c with other items and amounts.)

**15a Low-income housing credit (section 42(j)(5)).** The parts of lines 5 and 12 of Form 8586 that stem from section 42(j)(5) partnerships are reported here. There can be an amount here even if this partnership is not identified below line 1 of Form 1065 page 1 as a section 42(j)(5) partnership because Form 8586 can include amounts from pass-through entities that are section 42(j)(5) partnerships.

**from pre-2008 buildings.** *(Road Map line for Premium Level software, supported by Form 8586.)* The part of line 5 of Form 8586 that stems from buildings placed in service before 2008 by section 42(j)(5) partnerships is reported here. The amount on this line is distributed to partners, identified in box 15 of Schedule K-1 as code A.

**from post-2007 buildings.** *(Road Map line for Premium Level software, supported by Form 8586.)* The part of line 12 of Form 8586 that stems from buildings placed in service in 2008 or later by section 42(j)(5) partnerships is reported here. The amount on this line is distributed to partners, identified in box 15 of Schedule K-1 as code C.

**15b Low-income housing credit (other).** The parts of lines 5 and 12 of Form 8586 not reported on line 15a are reported here.

**from pre-2008 buildings.** *(Road Map line for Premium Level software, supported by Form 8586.)* The part of line 5 of Form 8586 that stems from buildings placed in service before 2008 by *other than* section 42(j)(5) partnerships is reported here. The amount on this line is distributed to partners, identified in box 15 of Schedule K-1 as code B.

**from post-2007 buildings.** *(Road Map line for Premium Level software, supported by Form 8586.)* The part of line 12 of Form 8586 that stems from buildings placed in service in 2008 or later by *other than* section 42(j)(5) partnerships is reported here. The amount on

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this line is distributed to partners, identified in box 15 of Schedule K-1 as code D.

**15c Qualified rehabilitation expenditures (rental real estate).** (*Road Map line, supported by Form 3468.*) The expenditures associated with lines 10e through 10j and 10m of Form 3468 are reported here *to the extent that they are rental real estate properties*. The individual partners determine their credit by using these amounts (as allocated to them) on their own Forms 3468. The expenditures that are *NOT* rental real estate are reported as a component of line 20c, described later. The amount on line 15c is distributed to partners, identified in box 15 of Schedule K-1 as code E.

**15d Other rental real estate credits.** Detail in a supporting statement for this line any information partners may need to figure any other credits on rental real estate not reported in the preceding lines, identifying the type of credit for each. The amount on this line is distributed to partners, identified in box 15 of Schedule K-1 as code F.

**15e Credits related to other rental activities.** Enter in a supporting statement for this line any information partners may need to figure credits related to any other rental activity, identifying the type of credit for each. The amount on this line is distributed to partners, identified in box 15 of Schedule K-1 as code G.

**Other credits for line 15f.** Other credits passed to partners or figured by partners are reported on the following lines, most of which have been assigned a specific code for reporting to partners on Schedule K-1:

**Undistributed capital gain.** Enter the amount reported to the partnership as a shareholder in a RIC or REIT. This amount is distributed to partners, identified in box 15 of Schedule K-1 as code H.

**6478 Alcohol used as fuel.** (*Road Map line for Premium Level software, supported by Form 6478.*) The credit before limitation to tax is reported here. This amount is distributed to partners, identified in box 15 of Schedule K-1 as code I.

**5884 Work opportunity credit.** (*Road Map line for Premium Level software, supported by Form 5884.*) The credit shown on line 4 of Form 5884 is reported here. This amount is distributed to partners, identified in box 15 of Schedule K-1 as code J.

**8826 Disabled access credit.** Enter the credit before limitation to tax shown on Form 8826 (not built into the software). This amount is distributed to partners, identified in box 15 of Schedule K-1 as code K.

**8844 Empowerment zone and renewal community employment credit.** Enter the credit before limitation to tax shown on Form 8844, line 3 (not built into the software). This amount is distributed to partners, identified in box 15 of Schedule K-1 as code L.

**6765 Increasing research credit.** (*Road Map line for Premium Level software, supported by Form 6765.*) The credit shown on Form

6765 is reported here. This amount is distributed to partners, identified in box 15 of Schedule K-1 as code M.

**8846 Credit for employer social security and Medicare taxes on tips.** (*Road Map line for Premium Level software, supported by Form 8846.*) The credit shown on line 6 of Form 8846 is reported here. This amount is distributed to partners, identified in box 15 of Schedule K-1 as code N.

**Backup withholding.** Enter the credit for backup withholding on dividends, interest, and other income of the partnership. This amount is distributed to partners, identified in box 15 of Schedule K-1 as code O.

**Amounts for line 15f not IRS-coded.** The last code, code P, is used for all remaining amounts that have no code of their own:

**8861 Welfare-to-work credit.** (*Road Map line for Premium Level software, supported by Form 8861.*) The credit shown on line 4 of Form 8861 is reported here. This credit has no code of its own, so you must identify it in a supporting statement for the Other credits line, below, using only the description column so that it is not counted twice. For example, if this is the only credit for line 15f, you could enter "Code P amount is for Form 8861" in the support. If there is more than one credit for line 15f, you could enter "1st P amt. is for Form 8861."

**8874 New markets credit.** Enter the credit before limitation to tax shown on Form 8874 (not built into the software). This credit has no code of its own, so you must identify it in a supporting statement for the Other credits line, below, using only the description column so that it is not counted twice. For example, if this is the only credit for line 15f, you could enter "Code P amount is for Form 8874" in the support. Otherwise, you could enter "1st P amt. is for Form 8874" (or "2nd P amt. is for Form 8874" if there is also a Form 8861 credit).

**3468 Unused investment credit from cooperatives.** (*Road Map line, supported by Form 3468.*) The amounts on lines 8 and 12 of Form 3468 are reported here. This credit has no code of its own, so you must identify it in a supporting statement for the Other credits line, below, using only the description column so that it is not counted twice. For example, if this is the only credit for line 15f, you could enter "P amt. is from coops for 3468" in the support. Otherwise, you could enter "1st P amt. is 3468 coop amt." (or 2nd or 3rd depending on other credits above).

**8910 Alternative motor vehicle credit.** (*Road Map line for Standard and Premium Levels, supported by Form 8910.*) The business and investment part of the credit, shown on line 15 of the 2009 Form 8910, is reported here. This credit most commonly applies to hybrid vehicles. This credit has no code of its own, so you must identify it in a supporting statement for the Other credits line, below, using

only the description column so that it is not counted twice. For example, if this is the only credit for line 15f, you could enter "Code P amount is for Form 8910" in the support. Otherwise, you could enter "1st P amt. is for Form 8910" (or 2nd or 3rd or 4th depending on other credits above).

**Other credits (itemize).** Report any other credits in a supporting statement for this line. See IRS instructions for line 15f in the *IRS 2009 Instructions for Form 1065* for a list of other credits to include. The amount on this line is distributed to partners, identified in box 15 of Schedule K-1 using the generic code P. *(If you have an amount on any of the preceding four lines, be sure to identify the form(s) from which they originate, but entering zero in the amount column since their amounts are already reported above.)*

**15f Other credits. (auto-calc)** Computed as the sum of all credits reported for line 15f.

**FOREIGN TRANSACTIONS.** This part is used to report entries for partners' Form 1116 or 1118, for claiming the foreign tax credit. You must complete these lines if the partnership had foreign income or loss, or paid or accrued foreign income. See IRS Pub. 517 for details.

**16a Name the foreign country or U.S. possession.** If more than one country applies, you must list the countries and corresponding amounts in an itemized list for each line that follows. *CAUTION: Although the software allows your entry to be as long as 25 characters, and there is sufficient room on Schedule K (Page 4 of Form 1065) to accommodate it, the entry will be truncated to 15 characters when used on Schedule K-1 because of the limited space provided for the entry by the IRS on that form.*

**16b Gross income from all sources.** Enter the grand total of income from all sources here, itemizing by country and type if necessary.

**16c Gross income sourced at partner level.** Report here income that is required to be sourced at the partner level, as detailed in IRS Pub. 514 and tax code section 865. You must provide the details in a supporting statement for this line, categorizing the amounts in the same manner as lines 16d, 16e, and 16f, below, plus the specific details described in the IRS instructions for Form 1065.

**Foreign gross income sourced at the partnership level.** Gross income must be separated into categories as follows. See IRS Pub. 514 for more detail on the categories. *CAUTION: The categories have changed, so if you started this return by translating the prior-year return, you may have to change amounts on lines 16d, 16e, and 16f.*

**16d Passive category.** Enter passive foreign source income. If more than one country is involved, separately list each country and amount in a supporting statement for this line. Income that falls into this category includes:

- Passive income

- Foreign trade taxable income
- Dividends from a Domestic International Sales Corporation
- Distributions from a Foreign Sales Corporation

**16e General category.** Report here all foreign source income sourced at the partnership level that is not included in lines 16d or 16f.

**16f Other (itemize).** Supply all information for this line in a supporting statement that separately lists income in the following categories:

- Section 901(j) income
- Certain income re-sourced by treaty

**Deductions allocated and apportioned at the partner level.** Certain deductions must be reported at the partner level:

**16g Interest income.** Enter the partnership's total interest expense, excluding certain interest that is directly allocable to income from a specific property. See IRS instructions for details.

**16h Other.** Enter here all other deductions or losses that are required to be allocated at the partner level, including research and experimental expenditures.

**Deductions allocated and apportioned at the partnership level.** Deductions at the partnership level must be separated into categories in the same manner as their associated income in lines 16d through 16f.

***CAUTION:*** *The categories have changed, so if you started this return by translating the prior-year return, you may have to change amounts on lines 16i, 16j, and 16k.*

**16i Passive.** Enter deductions allocated and apportioned to passive foreign source income. If more than one country is involved, separately list each country and amount in a supporting statement for this line. Income that falls into this category includes:

- Passive income
- Foreign trade taxable income
- Dividends from a Domestic International Sales Corporation
- Distributions from a Foreign Sales Corporation

**16j General category.** Report here all foreign source income allocated and apportioned at the partnership level that is not included in lines 16i or 16k.

**16k Other (itemize).** Supply all information for this line in a supporting statement that separately lists income in the following categories:

- Section 901(j) income
- Certain income re-sourced by treaty

**16l Foreign taxes.** You should enter an amount on only one of the following lines, depending on the method of accounting the partnership uses for foreign taxes for the tax year. Enter all amounts in a supporting statement for the appropriate line, categorizing each tax as (1) taxes withheld at source on interest, (2) taxes withheld at source on dividends, (3) taxes withheld at source on rents and royalties, or (4) other foreign taxes. In the text column of the support,

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enter the date each tax was paid or accrued and the amount in the *foreign* currency. In the amount column of the support, enter the amount in U.S. dollars.

**Paid.** Provide the described support at this line if the partnership uses the cash method of accounting.

**Accrued.** Provide the described support at this line if the partnership uses the accrual method of accounting.

**16m Reduction in taxes available for credit.** In a supporting statement for this line, enter the U.S. dollar amounts categorized as: (1) reduction of taxes on foreign mineral income (section 901(e)), (2) reduction for failure to furnish returns required under section 6308, (3) reduction for taxes attributable to boycott operations (section 908), (4) reduction of taxes on foreign oil and gas extraction income (section 907(a)), and (5) reduction for any other items, individually specified.

**16n Other tax information.** In a supporting statement for this line, enter any other information for the IRS related to foreign transactions.

**ALTERNATIVE MINIMUM TAX (AMT) ITEMS.** This part is used to report entries needed by partners in order to complete the alternative minimum tax form (Form 6251 for individuals) on their own returns.

**17a Post-1986 depreciation adjustment.** This adjustment is only for tangible property placed in service after 12/31/86 (and tangible property placed in service after 7/31/86 if the general depreciation system was elected). The adjustment is generally relative to an accelerated depreciation over a longer life than originally taken. For property placed in service after 1998, only property depreciated using the 200% declining balance method applies to this line, and the adjustment is the amount by which the deduction using 200% differs from that using 150%. See IRS instructions for Form 1065 for complete details and our details for line 8 of Form 6251 in the main *Tax Forms Guide 2010 Edition*.

**17b Adjusted gain or loss.** If the partnership disposed of any property put in service after 1986, enter here the difference between the actual gain and the AMT gain.

**17c Depletion (other than oil and gas).** Enter the amount of depletion that is more than the year-end adjusted basis of the property figured without regard to depletion.

**17d Oil, gas, and geothermal properties – gross income.** Enter only income from these sources included in line 8 of Form 1065.

**17e Oil, gas, and geothermal properties -- deductions.** Enter only the amount from these sources included in line 20 of Form 1065.

**17f Other AMT items (itemized).** Enter items not reported in lines 17a through 17e that the partners need to complete the AMT forms for their own returns, including accelerated depreciation (the amount of depreciation taken which is in excess of straight-line depreciation)

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on real property and leased personal property placed in service before 1/1/87. See IRS instructions for details. Supply all information in a supporting statement for this line, categorizing the amounts in accordance with the separate lines on the AMT forms that apply to the partners (Form 6251 for individuals).

**OTHER INFORMATION.** This section is a catch-all for all other items that must be reported to partners.

### **18 Tax-exempt income and nondeductible expenses:**

**18a Tax-exempt interest income.** Enter tax-exempt interest received.

**18b Other tax-exempt income.** Enter all other tax-exempt income here.

**18c Nondeductible expenses.** Enter expenses not reported elsewhere because they are not deductible from income for tax purposes.

### **19 Distributions:**

**19a Distributions of cash and marketable securities.** Enter distributions to partners made *not only in the form of cash but also in the form of marketable securities that are treated as money under section 731(c)(1)*. These distributions are identified in box 19 of Schedule K-1 as code A.

**19b Distributions of other property.** All distributions to partners for the year *not included in line 19a* are reported here:

**Distributions subject to section 737.** Enter here only distributions of property that is section 737 property. You are required to provide information unique to each partner for this distribution, so you'll need to create a separate supporting statement for each partner's Schedule K-1. That statement must show the fair market value of the property received in the distribution, the amount of money received in the distribution, and the net precontribution gain of the partner. See IRS *Instructions for Form 1065* for details. These distributions are identified in box 19 of Schedule K-1 as code C.

**Distributions of other property (not section 737).** Enter only distributions of property that is not section 737 property. In a supporting statement for this line, provide the adjusted basis and fair market value of each property distributed. These distributions are identified in box 19 of Schedule K-1 as code B.

**CAUTION: Special rules for distribution of marketable securities.** For distributions made after December 8, 1994, the fair market value of securities distributed to partners is generally treated by the partner as money received when figuring the amount of gain that must be recognized for tax purposes. That is, the partner must recognize a gain to the extent that cash plus marketable securities received exceeds the partner's basis in his or her partnership interest immediately before the distribution. Distributions are detailed on lines 19a and 19b of Schedules K and K-1 to help the IRS enforce these rules. See IRS Section 731(c) for details.



**Other information:**

**Adjustment to 5+6a+7+11 for line 20a.** If the sum of lines 5, 6a, 7, and the portfolio income part of line 11 (code A) is not equal to the total investment income for the partnership, enter any necessary adjustment here. For example, income and expenses from a passive activity should generally *NOT* be included.

**20a Investment income.** *(auto-calc)* Computed as the sum of lines 5, 6a, 7, and 11 plus the above adjustment. This income is identified in box 20 of Schedule K-1 as code A.

**Adjustment to portfolio income for line 20b.** If the amount you entered for "Deduction for portfolio income" in line 13d is not equal to the total investment expense for the partnership, enter any necessary adjustment here. See IRS instructions for details.

**20b Investment expenses.** *(auto-calc)* Computed as the "Deduction for portfolio income" part of line 13d plus the above adjustment. This expense is identified in box 20 of Schedule K-1 as code B.

**20c Other items and amounts.** Other items that must be reported to partners, but that do not fit into the categories of any other lines, must be reported here:

**4136 Fuel tax credit information.** No credit is reported here because each partner must use the information provided on Form 4136 to complete his or her own Form 4136. Any entry here or in a supporting statement will appear in box 20 of Schedule K-1 identified as code C.

**3468 Qualified rehabilitation expenditures not on line 15c.** *(auto-calc, supported by Form 3468, but not blocked)* The expenditures associated with lines 10e through 10j and 10m of Form 3468 are reported here to the extent that they are NOT rental real estate properties. A partner's share of this total will appear in box 20 of Schedule K-1 identified as code D. If an amount appears here, you must provide the details of Form 3468 lines 10b through 10j and 10m in a supporting statement for this line:

- (1) Identify the lines contributing to the total by entering the Form 3468 line numbers in the description column and the basis in the amount column. *Only lines 10e, 10f, 10g, 10h, 10i, 10j, and 10m apply.*
- (2) For lines 10b, 10c, and 10d, provide all information (line numbers, date, amounts) in the description column. Do not make any entry for these lines in the amount column.

Make sure that the total in the supporting statement matches the amount posted to Schedule K from Form 3468; the entries in the amount column will then be properly allocated among partners in the support for box 20, code D, of their Schedules K-1. *TIP: You can access Form 3468 through the Road Map at line 15c of Schedule K.*

**3468 Basis of energy property.** (*auto-calc, supported by Form 3468, but not blocked*) The basis of all energy property in lines 11a through 11s is reported here. A partner's share of this total will appear in box 20 of Schedule K-1 identified as code E. *If an amount appears here, you must provide the details of Form 3468 lines 11a through 11s in a supporting statement for this line:*

- (1) Identify the lines contributing to the total by entering the Form 3468 line numbers in the description column and the basis in the amount column. Only lines 11a, 11b, 11c, 11f, 11i, 11l, 11o, 11q, 11r, and 11s apply.
- (2) For lines 11d, 11g, and 11j, enter all information in the description column alone, including the line numbers and the kilowatt capacities, megawatts, and horsepower. Do not make an entry in the amount column.

Make sure that the total in the supporting statement matches the amount posted to Schedule K from Form 3468; the entries in the amount column will then be properly allocated among partners in the support for box 20, code E, of their Schedules K-1. *TIP: You can access Form 3468 through the Road Map at line 15c of Schedule K.*

**8611 Recapture of low-income housing credit (section 42(j)(5)).** (*Road Map line for Premium Level software, supported by Form 8611.*) Line 8 of a Form 8611 for which the amount is passed through from a section 42(j)(5) partnership of which this partnership is a partner, plus, if this partnership is itself a section 42(j)(5), the amount on line 17. A partner's share of this total will appear in box 20 of Schedule K-1 identified as code F.

**8611 Recapture of low-income housing credit (other).** (*Road Map line for Premium Level software, supported by Form 8611.*) Line 8 of a Form 8611 not passed through from a section 42(j)(5) partnership, plus, if this partnership is not a section 42(j)(5) itself, the amount on line 7. A partner's share of this total will appear in box 20 of Schedule K-1 identified as code G.

**4255 Investment credit.** (*Road Map line for Premium Level software, supported by Form 4255.*) The amount on line 13 of Form 4255 is reported here. A partner's share of this total will appear in box 20 of Schedule K-1 identified as code H.

**Other recapture (itemize).** Report other recapture in a supporting statement for this line. See the IRS 2009 *Instructions for Form 1065* for examples. The amount you report here will be shown in box 20 of a partner's Schedule K-1 as code I.

**Other items to report.** You must provide, in a supporting statement for this line, all other information required to be reported to partners, including:

- Basis in qualifying advanced coal project property (lines 6a, 6b, and 6c of Form 3468), basis in qualifying gasification project

# Partnership Supplement (2010 Edition)

Form 1065 (Schedule K)

property (lines 7a and 7b of Form 3468), and basis in advanced energy project property (line 8a of Form 3468). *TIP: The total of these basis amounts is shown on the last calculated line of the last screen of Form 3468, but is NOT automatically posted here. You must itemize the amounts in the cited lines in a supporting statement for this line, showing the line numbers in the description column and the basis for each line in the amount column. Make sure that the total in the supporting statement matches the total on Form 3468 so that the amounts are properly distributed among partners.*

- Nonqualified withdrawals from a capital construction fund.
- Taxes on undistributed regulated investment company capital gains.
- Gallons of fuels used and appropriate tax rate for each use.
- Gross income and share of production for oil or gas wells. Include information on oil and gas depletion for use by each partner, since oil and gas depletion cannot be deducted by the partnership itself.
- Recapture of section 179 deduction.
- Qualified income and expenditures under section 58(i) election.
- Intangible drilling costs under section 263.
- Items needed to determine basis of interest for section 704(d).
- Transfers of partnerships interests under section 6050k.
- Registration of Tax Shelters under section 6111.
- Information to partners to substantiate cause for understatement of tax liability under section 6661.
- Construction period interest and taxes under section 189.

See the IRS 2009 Instructions for Form 1065 for more examples. This support is prorated and identified as code X in box 20 of each partner's Schedule K-1.

**NET INCOME OR LOSS.** (*auto-calc*) Computed as net the income or loss on lines 1, 2, 3c, 4, 5, 6a, 7, 8, 9a, 10, and 11 less the deductions on lines 12 through 13d and the foreign tax paid on line 16l, this is the net income or loss for the partnership. It is posted to line 1 of *Analysis of Net Income (Loss)* at the top of Page 5 of Form 1065.

**Road map to Distribution Worksheet and Schedules K-1.** Once Schedule K is completed the amounts on Schedule K can be distributed among the partners' individual Schedules K-1. You can access the Distribution Worksheet and Schedules K-1 only through the following lines if you use the Road Map method of data entry.

**Itemize to access Distribution Worksheet.** (*Road Map line, supported by the Distribution Worksheet.*) This line provides access through the built-in Road Map to the worksheet for distribution of Schedule K amounts to each partner's Schedule K-1.

**Itemize to access Schedules K-1.** (*Road Map line, supported by Schedules K-1.*) This line provides access through the built-in Road Map to each partner's Schedule K-1.

## Form 1065 (Schedules L, M-1, and M-2)

### FORM 1065 PAGE 5 (Schedules L, M-1, and M-2)

The next few pages detail the final page of the 5-page Form 1065. It contains Schedules L, M-1, and M-2. But, if you can answer Yes to Question 5 of Schedule B (Form 1065, Pages 2 and 3), you need not complete these schedules. However, if you had to answer Yes to line J of Form 1065, page 1, you must file the separate Schedule M-3 (not built into the software) in place of Schedule M-1.

**ANALYSIS OF NET INCOME (LOSS).** This section is used by the IRS to assess the type of partnership.

**1 Net income (loss) from Schedule K.** (*auto-calc*) Taken from the NET INCOME OR LOSS line we display at the end of Schedule K, this is the distributive net income and payments. (Schedule K is found on Page 4 of Form 1065.)

**2 Analysis by type of partner.** This section shows how the above total is distributed among different classes of partners. The partners are first separated into (a) general partners and (b) limited partners. For each of the two, six classes are identified: (i) Corporate, (ii) Individual with active participation, (iii) Individual with passive participation, (iv) Partnership, (v) Exempt organization, (vi) Nominee or other. See the sections for Schedule E and Form 8582 in the *Tax Forms Guide 2010 Edition* for discussions of active participation and passive activities.

Refer to the IRS instructions for *Analysis of Net Income (Loss)* in the IRS's *2009 Instructions for Form 1065* for more information.

**SCHEDULE L (BALANCE SHEETS).** Even if you must submit balance sheets, you may, under some circumstances, leave Schedule L blank and submit the balance sheets you have to submit to your local authority in place of Schedule L. In either case, you must explain and justify in a supporting statement any difference between the balance sheets you submit to the IRS and the partnership's books (such a difference due to contributed property).

**Assets.** The assets side of the balance sheets is completed first. The assets at the beginning of the year are specified first, then the assets at the end of the year. The categories for both parts are identical, but entries and calculations for the beginning of the year appear in columns (a) and (b) when printed, while entries and calculations for the end of the year appear in columns (c) and (d). The first two screens of Schedule L apply to assets at the beginning of the tax year, and the next two apply to assets at the end of the tax year.

**1 Cash.** Enter cash assets here.

**2a Trade notes and accounts receivable.** Enter short-term receivables here.

**2b Less allowance for bad debts.** Enter as indicated.

**Net accounts receivable.** (*auto-calc*) Computed as line 2a less line 2b.

**3 Inventories.** Enter as indicated.

**4 U. S. government obligations.** Enter as indicated.

## Partnership Supplement (2010 Edition)

Form 1065 (Schedules L, M-1, and M-2)

- 5 Tax-exempt securities.** Enter state and local government obligations, the interest on which is exempt from federal income tax. Also include stock in a mutual fund or other regulated investment company from which the partnership received tax-exempt income.
- 6 Other current assets (itemize).** You must describe any other current assets in a supporting statement for this line.
- 7 Mortgage and real estate loans.** Enter all realty loans for which the partnership is the lender.
- 8 Other investments (itemize).** You must describe any other investments in a supporting statement for this line.
- 9a Buildings and other depreciable assets.** Enter as indicated.
- 9b Less accumulated depreciation.** Enter all past depreciation taken on the items in line 9.
- Net depreciable assets. (auto-calc)** Line 9a less line 9b.
- 10a Depletable assets.** Enter as indicated.
- 10b Less accumulated depletion.** Enter all past depletion taken on the items in line 10.
- Net depletable assets. (auto-calc)** Line 10a less line 10b.
- 11 Land (net of any amortization).** Enter as indicated.
- 12a Intangible assets (amortizable only).** Enter as indicated.
- 12b Less accumulated amortization.** Enter all past amortization taken on the items in line 12a.
- Net amortizable assets. (auto-calc)** Line 12a less line 12b.
- 13 Other assets (itemize).** You must describe any other assets in a supporting statement for this line.
- 14 TOTAL assets. (auto-calc)** The sum of lines 1 through 13. The end of year result, column (d), is posted to line F of Form 1065 Page 1 unless it is zero; if zero, the beginning of year total, column (b) of line 14, is posted to line F of Form 1065 Page 1 instead.

**Liabilities and Capital.** The liabilities side of the balance sheets is completed next. The beginning-of-year and end-of-year liabilities alternate for each numbered line. Entries and calculations for the beginning of the year appear in column (b) when printed, while entries and calculations for the end of the year appear in column (d).

- 15 Accounts payable.** Enter as indicated.
- 16 Mortgages, notes, and bonds payable in less than 1 year.** Enter as indicated.
- 17 Other current liabilities (itemize).** You must describe any other current liabilities in a supporting statement for this line.
- 18 All nonrecourse loans.** Enter here liabilities for which NONE of the partners have any personal liabilities.
- 19 Mortgages, notes, and bonds payable in 1 year or more.** Enter as indicated.
- 20 Other liabilities (itemize).** You must describe any other liabilities in a supporting statement for this line.

**21 Partners' capital accounts.** *(auto-calc)* The beginning of year entry, column (b), is taken automatically from line 1 of Schedule M-2, below. The end of year entry, column (d), is taken automatically from line 9 of Schedule M-2, below. Both lines, however, can be overridden, if necessary, through use of the Override Key.

**22 TOTAL liabilities and capital.** *(auto-calc)* Lines 15 through 21 are separately summed for beginning-of-year and end-of-year columns.

**SCHEDULE M-1 - RECONCILIATION OF INCOME PER BOOKS WITH INCOME PER RETURN.** This schedule reconciles the partnership's books with the partnership's tax return, so that differences are clearly accounted for. The result on line 9 of this schedule will match the result for NET INCOME OR LOSS at the bottom of the last screen of Schedule K once the two are fully reconciled. *CAUTION: If, after final recalculation of the return, an amount appears on the line below line 9 labeled "DISCREPANCY vs. Schedule K," you have not properly explained the differences between the books and the return in schedule M-1.*

**SCHEDULE M-2 - ANALYSIS OF PARTNERS' CAPITAL ACCOUNTS.** This schedule reconciles the capital accounts of all partners combined. *The separate capital accounts for each partner, reported on line J of each partner's Schedule K-1, should generally add up to the amounts on this schedule.*

- 1 Balance at beginning of year.** Enter beginning amount from line 9 of last year's Sch. M-2. This entry is used for line 21(b) of Sch. L.
- 2 Capital contributed during year.** Enter capital contributed by all partners together, separately stated for cash and property.
- 3 Net income per books.** *(auto-calc)* Taken from line 1 of Sch. M-1.
- 4 Other increases (itemize).** Enter all other gains in a supporting statement for this line, including capital *GAINS*, tax-exempt income, and dividends that qualify for exclusion.
- 5 Total of lines 1 through 4.** *(auto-calc)* Computed as indicated.
- 6 Distributions.** Enter distributions made in cash or property, including interest passed to partners and purchases for personal use.
- 7 Other decreases (itemized).** Include in a supporting statement for this line capital *LOSSES*, charitable contributions, other nondeductible amounts, and other itemized deductions.
- 8 Total of lines 6 and 7.** *(auto-calc)* Computed as indicated.
- 9 Balance at end of year.** *(auto-calc)* Computed as line 5 less line 8, this result is automatically posted to line 21(d) of Schedule L.

## Schedule B-1 / Information on Partners Owning 50% or More of the Partnership

**Purpose.** This new schedule is used to supply information on partners who own 50% or more interest in the partnership, whether based on profit, loss, or capital. This information was formerly reported on Schedule B (on page 2 of Form 1065), but is now supplied on this separate schedule. You are required to complete Schedule B-1 only if your answer to line 3a or 3b of Schedule B is Yes. *Schedule B-1 is accessible through the Road Map below lines 3a and 3b of Schedule B (Form 1065 page 2).*

**PART I, ENTITIES OWNING 50% OR MORE OF THE PARTNERSHIP.** Use this part to supply information on any partner that is a foreign or domestic corporation, partnership, trust, or tax-exempt organization that owns 50% or more interest in the profit, loss, or capital of the partnership.

**Did any foreign or domestic corporation, partnership, trust, or tax-exempt organization own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? (*auto-calc*)**  
Taken from your answer to line 3a of Schedule B (Form 1065 page 2), which you should have completed before accessing this Schedule B-1. If Yes, you must complete the worksheet that supports the next line.

**If Yes, itemize worksheet here. (*Supported by the Schedule B-1 Part I Worksheet, Figure PAR-5.*)** You must supply all information for Part I on the worksheets that support this line, illustrated below.

**Schedule B-1 Part I Worksheet.** You must identify ALL partners who are partners described on line 3a of Schedule B (Form 1065 page 2).

**i Name of Entity.** Enter the name in 30 characters or less.

**ii Employer ID Number.** Enter entity's EIN in the standard xx-xxxxxxx format.

**iii Type of Entity.** Enter corporation, partnership, trust, or tax-exempt.

**iv Country of Organization.** Enter the country in 11 characters or less, using a standard abbreviation when necessary.

**v Maximum Percentage Owned in Profit, Loss, or Capital.** Enter the percentage for the classification with the highest percentage of ownership, from 0 to 100.

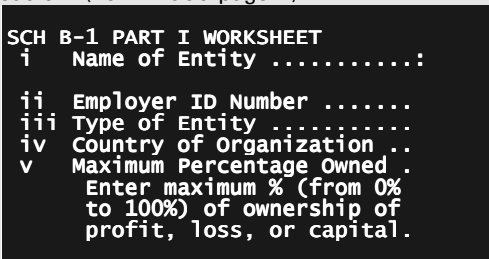


Figure PAR-5. Schedule B-1 Part I Worksheet

Schedule B-1

Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? (*auto-calc*) Taken from your answer to line 3b of Schedule B (Form 1065 page 2), which you should have completed before accessing this Schedule B-1. If Yes, you must complete the worksheet that supports the next line.

If Yes, itemize worksheet here. (*Supported by the Schedule B-1 Part II Worksheet, Figure PAR-6.*) You must supply all information for Part II on the worksheets that support this line, illustrated below.

**Schedule B-1 Part II Worksheet.** You must identify ALL partners who are partners described on line 3b of Schedule B (Form 1065 page 2).

- i **Name of Individual or Estate.** Enter the name in 30 characters or less.
- ii **SSN or EIN.** If an individual, enter the individual's SSN in the standard xxx-xx-xxxx format. Otherwise, enter the estate's EIN in the standard xx-xxxxxxx format.

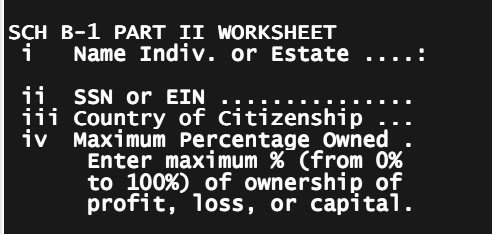


Figure PAR-6 Schedule B-1 Part II Worksheet

- iii **Country of Citizenship.** If an individual, enter that person's country of citizenship. Otherwise, enter the country of citizenship for the estate's decedent. (Use a standard abbreviation when necessary.)
- iv **Maximum Percentage Owned in Profit, Loss, or Capital.** Enter the percentage for the classification with the highest percentage of ownership, from 0 to 100.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.



## Schedule D / Capital Gains and Losses

**Purpose.** Schedule D is used to report the sale or exchange of capital assets, except for capital gains and losses that are specially allocated to partners, and is accessible through Schedule K (Form 1065, page 4) above lines 8, 9a, 9b, and 11. CAUTION: Sales of depreciable property, such as property used in a trade or business or rental property, are reported on Form 4797, not here.

**PART I - SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD ONE YEAR OR LESS.** Lines 1 through 7 of Schedule D are reserved for assets held one year or less. You must determine yourself whether an asset should be reported here or in the next section, and access the worksheets from the proper section:

**1 SHORT-TERM (f) gain/loss.** (Supported by the Short-term Gain/Loss Worksheet, similar to Figure PAR-3.) The supporting worksheets that you create by pressing the Itemize Key at this line are assumed to qualify for short-term treatment. Using one worksheet for each transaction, any number of transactions may be entered, subject to available disk space. The total gain or loss from all worksheets combined appears here.

**Non-portfolio amount in line 1(f).** (auto-calc; supported by the Short-term Gain/Loss Worksheet, similar to Figure PAR-3.) The total gain or loss from the same worksheets for only those transactions *NOT* identified as portfolio transactions appears here.

**Form 6781, Part II amount for Schedule D, line 1(f).** (Road Map line for Premium Level software, supported by Form 6781.) The amount of short-term capital gain or loss shown from Part II of Form 6781 is reported here.

**2 Long-term gain or loss from Schedule D-1, line 2.** The IRS introduced Schedule D-1 for 2009 so that those who prepare returns manually would have a place to enter transactions that don't fit on Schedule D. However, Schedule D-1 is totally unnecessary for Tax Preparer because the software provides an unlimited number of worksheets to support line 1, and prints a cross-referenced supporting statement in the same format as line 1 when they don't fit on the schedule. Nevertheless, you can enter here the amount on line 2 of a manually-prepared Schedule D-1.

**3 Short-term gain from Form 6252.** (Road Map line, supported by Form 6252.) Short-term gains from installment sales for Schedule D are posted here from all copies of Form 6252 completed.

**4 Short-term gain or loss from like-kind exchanges from Form 8824.** (Road Map line for Premium Level software, supported by Form 8824.) You must complete Form 8824 to claim the deferral of any gain under the rules for like-kind exchanges. Any short-term gain or loss resulting on that form is reported here.

## Schedule D

**5 Short-term gain or loss from other partnerships and fiduciaries.** Enter the partnership's share of net short-term capital gains or losses from other partnerships and from fiduciaries (estates and trusts), including specially allocated short-term capital gains or losses. This entry should generally be the sum of amounts from all Schedules K-1 received from the partnerships and fiduciaries.

**6 NET SHORT-TERM CAPITAL GAIN OR (LOSS).** *(auto-calc)* Computed as the sum of all amounts in line 1(f) plus the amounts on lines 2 through 5.

**Amount for Schedule K, line 11.** *(auto-calc)* Taken as the non-portfolio part of line 1(f), this result is posted to Schedule K (Form 1065, Page 4) as the component of line 11 labeled "ST non-portfolio in D," then distributed to line 11 of each partner's Schedule K-1. *If line 2, 3, 4, or 5 includes any income or loss that is not portfolio income or loss, you must override this line to include it here.*

**Balance for Schedule K, line 8.** *(auto-calc)* Computed as line 6 less the preceding non-portfolio part of line 6, this result is posted to line 8 of Schedule K (Form 1065, Page 4), and then distributed to line 8 of each partner's Schedule K-1.

**PART II - LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD MORE THAN ONE YEAR.** Lines 7 through 13 are reserved for assets held more than one year before disposition.

**7 LONG-TERM transactions.** *(Supported by the Long-term Gain/Loss Worksheet, Figure PAR-3.)* The supporting worksheets you access here are reserved for long-term transactions. Using one worksheet for each transaction, any number of transactions may be entered. The total gain or loss from all worksheets combined appears here.

**Collectibles part of above.** *(auto-calc; supported by the Long-term Gain/Loss Worksheet, Figure PAR-3.)* The gain or loss from the worksheets for transactions identified as collectible appears here. This amount is subject to the 28% rate rules

**Non-portfolio part of line 7.** *(auto-calc; supported by the Long-term Gain/Loss Worksheet, Figure PAR-3.)* The gain or loss from worksheets for transactions *NOT* identified as portfolio transactions appears here.

**Collectibles part of above.** *(auto-calc; supported by the Long-term Gain/Loss Worksheet, Figure PAR-3.)* The gain or loss from the worksheets for transactions identified as collectible and *NOT* identified as portfolio transactions, appears here.

**Form 6781, Part II amount for Schedule D, line 6(f).** *(Road Map line for Premium Level software, supported by Form 6781.)* The amount of long-term capital gain or loss shown from Part II of Form 6781 is reported here.

**8 Long-term gain or loss from Schedule D-1, line 8.** The IRS introduced Schedule D-1 for 2009 so that those who prepare returns manually would have a place to enter transactions that don't fit on Schedule D. However, *Schedule D-1 is totally unnecessary for Tax Preparer because the software provides an unlimited number of worksheets to support line 8, and prints a cross-referenced supporting statement in the same format as line 8 when they don't fit on the schedule.* Nevertheless, you can enter here the amount on line 8 of a manually-prepared Schedule D-1.

**Collectibles part of above.** If you entered an amount from Schedule D-1, above, you must enter here the portion of that amount that is subject to the 28% rate rules.

**9 Long-term gain on Form 6252.** *(Road Map line, supported by Form 6252.)* Those long-term gains from installment sales for Schedule D are transferred here from all copies of Form 6252 completed.

**Collectibles part of above.** *(Road Map line, supported by Form 6252.)* Only long-term gains from installment sales for Schedule D that are identified as sales of collectibles are transferred here from Forms 6252.

**10 Long-term gain or loss from like-kind exchanges from Form 8824.** *(Road Map line for Premium Level software, supported by Form 8824.)* You must complete Form 8824 to claim the deferral of any gain under the rules for like-kind exchanges. Any long-term gain or loss resulting on that form is reported here.

**Collectibles part of above.** *(Road Map line for Premium Level software, supported by Form 8824.)* The portion of the preceding long-term amount from Form 8824 that is subject to the 28% rate rules is reported here.

**11 Long-term gain or loss from other partnerships and fiduciaries.** Enter the partnership's share of net long-term capital gains or losses from *other* partnerships and from fiduciaries (estates and trusts), including specially allocated long-term capital gains or losses. This entry should generally be the sum of amounts from all Schedules K-1 received from the partnerships and fiduciaries.

**Collectibles part of above.** Enter here the portion of the preceding long-term gain or loss that is subject to the 28% rate rules.

**12 Capital gain distributions.** Enter capital gain distributions received.

**Collectibles of above.** Enter the portion of the preceding capital gain distributions that is subject to the 28% rate rules.

**13 NET LONG-TERM CAPITAL GAIN (LOSS).** *(auto-calc)* Computed as the sum of all amounts in line 7(f) plus the amounts on lines 8 through 12.

**Amount for Schedule K, line 11.** *(auto-calc)* Taken as the non-portfolio part of line 7(f), this result is posted to Schedule K (Form 1065, Page 4) as a the component of line 11 labeled "LT non-

## Schedule D

portfolio in D," then distributed to line 11 of each partner's Schedule K-1. If long-term capital gains in lines 8, 9, 10, 11, or 12 include any income or loss that is not portfolio income or loss, you must override this line to include those amounts here as well.

**Balance for Schedule K, line 9a.** *(auto-calc)* Computed as line 13 less the preceding non-portfolio part of line 13, this result is posted to line 9a of Schedule K (Form 1065, Page 4), and then distributed to line 9a of each partner's Schedule K-1.

>>**Collectibles in lines 7 through 12, column (f).** *(auto-calc)* Computed as the sum of 28% rate gain or loss in lines 7 through 12.

**Amount related to Schedule K, line 11.** *(auto-calc)* Taken as the collectibles part of the non-portfolio part of line 7(f). Even though the total non-portfolio part of line 7(f) is reported at line 11 of Schedule K, the collectibles part is not. Instead, this result is posted to Schedule K (Form 1065, Page 4) as the component of line 9b labeled "28% rate non-portfolio in D," and then distributed to line 9b of each partner's Schedule K-1. If lines 8, 9, 10, 11, or 12 include any 28% rate income or loss that is not portfolio income or loss, you must override this line to include those amounts here as well.

**Balance related to Schedule K, line 9a.** *(auto-calc)* Computed as the "Collectibles" total less the preceding non-portfolio part, this result is posted to Schedule K (Form 1065, Page 4) as the component of line 9b labeled "28% rate in 9a from Sch. D," and then distributed to line 9b of each partner's Schedule K-1.

**Gain/Loss Worksheet, Short-term or Long-term, Figure PAR-3.** *(Supports line 1 for Short-term and line 7 for Long-term capital gains and losses.)* Three of the following lines are unique to the worksheets for long-term transactions:

**α Description.** Describe the asset in 25 characters or less.

**Is it a collectible?** *(appears ONLY on long-term worksheets accessed at line 7)* Answer Yes if the item qualifies as a collectible, such as a work of art, antique, precious metal, gem, stamps, coins, etc. Long-term gains on collectibles are not eligible for the lowest rates of capital gains tax, and are therefore classified as 28% rate gains.

**Portfolio transaction?** If a portfolio transaction, the partner is not subject to the passive activity rules on the transaction.

**Entire interest sold?** Losses may be subject to passive activity rules for the partner if the entire interest is not sold.

**Bypass date checking?** Answer Yes for special types of transactions

for which  
the usual  
short-term  
vs. long-  
term rules  
do not ap-  
ply. (See  
the details  
for the  
Gain/Loss  
Worksheet  
for Sched-  
ule D in  
Chapter 2

GAIN/LOSS WORKSHEET	
a. Description	
Is it a collectible...?	No
Portfolio transaction...?	No
Entire interest sold...?	No
Bypass date checking...?	No
b. Date acquired mm/dd/yy	
c. Date sold	
d. Sales price	0
e. Cost or other basis...	0
NET (your entry if d=0 & e=0)	0
f. Gain(loss)	0
28% rate gain/loss.....	0

**Figure PAR-3. Gain/Loss Worksheet**  
(Long-term version shown)

of the main *Tax Forms Guide 2010 Edition.*)

**b and c, Date acquired and date sold.** Use the mm/dd/yy format for both dates. Unless you chose to bypass date checking through a Yes answer to the preceding question, the software will check your entries to make sure that the sale date is in the current fiscal year (consistent with your entry for tax year and fiscal year on the Control Form), and that the holding period is consistent with the line you itemized.

**d Sales price.** Report on line d the proceeds from the sale. This entry should match Form 1099-B from the broker, when available.

**e Cost or other basis.** You must report here the purchase price and any of the costs associated with the sale that were not deducted in reporting the amount or line d.

**NET (your entry if d=0 & e=0).** This line will normally be computed as line d less line e. However, if both lines d and e are zero, you may enter any net here yourself (positive for gain, negative for loss). This capability is provided to handle special types of transactions that cannot be reported using sales prices and costs, nor dates.

**f Gain (loss).** *(auto-calc)* Taken as the above NET line.

**28% rate gain/loss.** *(auto-calc line, which appears ONLY for long-term worksheets accessed at line 7)* Computed as line f if the answer to the collectibles question is Yes, and zero otherwise.

Amounts from this worksheet are summed with all other worksheets for the same line and posted to Schedule D itself, including not only the total gain or loss at line f but also a separate total for transactions that are not portfolio transactions. For the long-term worksheets the 28% rate gain or loss and its active non-portfolio part are also posted to Schedule D.

### **Schedule F / Profit or Loss from Farming**

**Refer to main Tax Forms Guide for details.** Schedule F is used to report income from a partnership-owned farm business. Five separate copies of Schedule F are available in the software to report the activities of five separate farm businesses. This schedule is the same one used by individuals for Form 1040, except that

- Spouse question is omitted from screen, since all copies of Schedule F apply only to the partnership.
- Passive activity questions are omitted from screen, since each partner must make the passive determination for himself or herself.
- At-risk questions are omitted from screen and boxes at lines 37a and 37b are left unchecked on the official printout.
- Line D (Employer ID no.) is automatically taken as the partnership's EIN.

See the section on Schedule F in Chapter 2 of the main *Tax Forms Guide 2010 Edition* for information on all other entries.

## Schedule K-1 / Partner's Share of Income, etc.

**Purpose.** A Schedule K-1 must be submitted to each partner. Nevertheless, creation of all required Schedules K-1 is not necessary for the proper computation of the rest of the return. The only need for creating the individual schedules is for reporting specific items to each partner, and not for ensuring a self-consistent return.

**HINT: Defer creating Schedule K-1 to minimize calculation slowdowns.** When a Schedule K-1 is finally created, the amounts distributed to each line of the schedule are controlled by the entries on Schedule K, the Distribution Worksheet, and line D of that Schedule K-1. *It is therefore important that Schedule K and the Distribution Worksheet be completed before any Schedule K-1 is created* to avert extensive recalculations whenever amounts on other forms are changed.

**The role of the Distribution Worksheet.** The Distribution Worksheet *MUST* be prepared before any Schedule K-1 is created in order to achieve all but the simplest distribution of Schedule K amounts to each partner's Schedule K-1. As detailed at the end of this document, the Distribution Worksheet provides you with ten different distribution methods for each line of Schedule K. *Once the amounts are distributed from Schedule K to Schedule K-1, however, any entry can be overridden by itemizing the line and creating a supporting statement that is customized to that particular Schedule K-1.*

**What happens without the Distribution Worksheet.** If no Distribution Worksheet has been created, method 1 is assumed for ALL lines. Method 1 uses the end-of-year profit-sharing percentage entered on line D, below, to distribute positive amounts, and end-of-year loss-sharing percentage entered on line D, below, to distribute negative amounts.

**Accessing Schedules K-1.** Whether you try to access Schedule K-1 from the Forms Menu or the last line of Schedule K, you are first asked which copy of Schedule K-1 you want to access through the

Existing K-1 copies:	1
NEXT Copy:	2
which do you choose?	1

menu in Figure PAR-8. After you complete a Schedule K-1, you are returned to this menu so that you can select a Schedule K-1 for another partner. When you press the Escape Key at this question, however, you are returned to the line from which you accessed the question. *The number of Schedules K-1 that you can generate is virtually unlimited.* (Only the capacity of your Storage Disk limits the number of Schedules K-1, which consume little more than 2K of disk space each except for extra support you may provide.)

## Schedule K-1

**I, INFORMATION ABOUT THE PARTNERSHIP.** Information concerning the partnership, most of which is entered elsewhere, is provided here for use on the Schedule K-1 to partners.

**Copy number.** *(auto-calc)* The copy number you selected above when accessing the Schedule K-1 appears here automatically. Once you have completed the first couple of lines of Schedule K-1 for a partner, the partner's name and identifying number become associated with the selected copy number. This copy number continues to be the copy number associated with that partner until you delete a copy of Schedule K-1 with the file manager described in Chapter 9 of the separate *User's Guide*. When a Schedule K-1 is deleted, the copy numbers for all Schedules K-1 with a copy number higher than the deleted copy are lowered by one. You must therefore keep track of which copy number corresponds to which partner yourself if you remove any copies.

**Is this K-1: (1) Final K-1 or (2) Amended K-1?** Answer Yes to either or both questions that apply. (A final K-1 is the final one for this partner because the partner disposed of all interest in the partnership by the end of the year. An amended K-1 is a modified K-1 to replace one previously filed with the IRS for the same tax year.)

**A and B appear on printouts only.** The partnership's identity (EIN, name, address, etc.) is taken from your entries on Form 1065 (Page 1) when the Schedules K-1 are printed.

**C IRS Center where partnership filed return.** *(auto-calc)* Taken from your entry on Form 1065 (Page 1) for the IRS Center for partnership return.

**D Is this a publicly traded partnership (PTP) under sec. 469(k)(2)?** *(auto-calc)* The answer is taken from your answer to Question 7 of Schedule B (Form 1065 Pages 2 and 3). Partners need this determination for their own returns because income and loss from publicly traded partnerships are subject to special reporting requirements under the passive loss rules, as highlighted in a shaded box at the end of our details for line 28 of Schedule E in Chapter 2 of the main *Tax Forms Guide 2010 Edition*.

**II, INFORMATION ABOUT THE PARTNER.** Information concerning the specific partner associated with the selected copy is supplied here.

**E Partner's identifying number.** If the partner is an individual, enter the partner's social security number in the format 000-00-0000. Otherwise, enter the partner's employer identification number in the format 00-0000000. If the partner is an IRA, enter the identifying number of the custodian of the IRA.

**F Partner's name and address.** The partner is identified as follows:

**Partner's name.** Enter the name in 35 characters or less.

**Partner's address (number and street).** Enter the street address of the partner in 35 characters or less.

**City or town, state.** Enter the city and 2-letter state code for the partnership in 25 characters or less.



# Partnership Supplement (2010 Edition)

## Schedule K-1

**ZIP Code.** Enter the 5-digit (00000) or 9-digit (00000-0000) ZIP code of the partner.

**G This partner is a...** Classify this partner as one of two classes. A general partner is one who is personally liable for the obligations of the partnership. A limited partner is one whose personal liability is limited by the investment made or required to be made by the partner. A partner in a limited liability company is not personally liable for any debts of the partnership.

**General partner of LLC member-manager.** If you answer Yes for this partner, ordinary income on lines 1 and 3 is included in self-employment income at line 14a before you make any necessary adjustments.

**Limited partner or other LLC member.** (*auto-calc*) Automatically the opposite of the preceding answer, if Yes appears here then only guaranteed payments on line 4 are included in self-employment income at line 14a before you make any necessary adjustments.

**H This partner is a...** Classify this partner as domestic or foreign, as follow:

**Domestic partner.** (*auto-calc*) Automatically Yes unless you answer Yes to the following question.

**Foreign partner.** If Yes, the answer to the preceding question is forced to No.

**I What type of entity is this partner?** Enter the type as individual, corporation, fiduciary, partnership, exempt organization, or nominee. If a nominee (custodian), also identify the type of organization the nominee represents as I for individual, C for corporation, F for fiduciary, P for partnership, E for exempt organization, and IRA for individual retirement account.

**J Partner's % of sharing.** Eight separate percentages can be specified separately for each partner. Your entries on the Distribution Worksheet control how some of the percentages are used to automatically distribute amounts to each partner's Schedule K-1. The percentages are organized into four pairs. The first three pairs are split into column (i) and column (ii). You must enter in column (ii) the percentages that existed at the end of the tax year. For most partners and partnerships, this is the only column that is relevant. You must complete column (i), however, if the percentages changed or the partner's interest in the partnership terminated anytime during the tax year. If percentages changed, enter the old percentages in column (i), and, if more than one change occurred during the year, list the dates and percentages that existed before each change in a general itemized list. If the interest terminated, enter the percentages that existed just before the termination in column (i).

**How to enter the percentages.** All percentages MUST be entered as numbers from 0 to 100, not fractions from 0 to 1. For example, if all profits are shared equally among three partners, the entries for profit sharing percentages for those partners would be 33.3333.

**Profit sharing percentages.** How profits are shared is summarized by these entries: column (i) for pre-changes percentages and column (ii) for end-of-year percentages.

## Schedule K-1

**Loss sharing percentages.** How losses are shared is summarized by these entries: column (i) for pre-changes percentages and column (ii) for end-of-year percentages.

**Ownership of capital percentages.** How ownership of capital is split among partners is summarized by these entries: column (i) for pre-changes percentages and column (ii) for end-of-year percentages. You should check that these percentages are consistent with the capital accounts summarized in line K.

**Alternate percentages.** Two additional alternate percentages are provided for distributions that do not directly involve the above percentages. Method 7 on the Distribution Worksheet (detailed later) uses alternate percentage number 1 for all distributions, and Method 8 uses alternate percentage number 2. These percentages are unique to this software, to give you added flexibility in automatic distribution. They are therefore NOT shown on the printed Schedule K-1 for the IRS.

**K Partner's share of liabilities at year-end.** Composed of three lines:

**Nonrecourse.** Enter the dollar amount of the partner's share of nonrecourse liabilities, which are those liabilities for which NONE of the partners have any personal liability, but excluding the amount entered as Qualified nonrecourse financing, below. Use year-end amounts for those who were still partners at year-end, and the amount just prior to final disposition for all others.

**Qualified nonrecourse financing.** Enter the dollar amount of the partner's share of qualified nonrecourse financing, which is typically a real estate mortgage that is loaned or guaranteed by a Federal, state, or local government. Use year-end amounts for those who were still partners at year-end, and the amount just prior to final disposition for all others.

**Recourse.** Enter the dollar amount of the partner's share of all other liabilities.

If more than one activity is involved, you should support each entry with a general itemized list identifying the activities with the amounts.

**L Analysis of partner's capital account.** If the answer to Question 5 on Schedule B (Form 1065, Pages 2 and 3) is Yes, you need not complete this line. This analysis is related to Schedule M-2 (Form 1065, Page 5), but reflects the capital account for the individual partner only, not the entire partnership. Because the capital accounts are subject to so many special distributions, the software makes no attempt to complete line J automatically. Nevertheless, the amounts on Schedule M-2 should generally equal the total of the amounts reported on line J of all Schedules K-1 taken together, and each line J should reflect the capital ownership percentages entered in line D, above. See Schedule M-2 (Form 1065, Page 5) for more information on individual entries.

**Beginning capital account.** Provide opening entry for this partner's capital account.

**Capital contributed during the year.** Enter all capital contributed by this partner during the tax year.

**Income from lines 1 through 3 and 5 through 11.** *(auto-calc)* Computed automatically as this sum of lines 1, 2, 3, 5, 6a, 7, 8, 9a, 10, and 11 this copy of Schedule K-1.

**Nontaxable income and other income not included above.** Include in this entry this partner's share of capital *GAINS*, tax-exempt income, and dividends that qualify for exclusion.

**Unallowable deductions and other losses not included above.** Enter this partner's share of interest above line 15 of Form 1065 Page 1, capital *LOSSES*, charitable contributions, other nondeductible amounts, and other itemized deductions.

**Current year increase or decrease** *(auto-calc)* Computed as the above two income lines less the above loss line. **CAUTION: *The total of this line summed from all partners' Schedule K-1s should match the indicated results on Schedule M-2 of Form 1065, Page 5.*** If it does not, you most likely have an error in your manual allocation for this line on at least one of the Schedule K-1s.

**Withdrawals and distributions.** Include any withdrawals from purchases by this partner for personal use.

**Ending capital account.** *(auto-calc)* Computed as the sum of first 3 lines less the 4th, this is the partner's capital account at year-end.

**Method used.** Enter the method used for the entries on line N.

**Tax basis.** This is the method we use for the auto-calc lines, but you can choose a different method through your entries above.

**GAAP.** Answer Yes if applicable.

**Section 704(b) book.** Answer Yes if applicable.

**Other (itemize).** If you use a method other than the preceding three answer Yes here and explain your method in a supporting statement of this line.

**M Did partner contribute property with a built-in gain or loss?** Answer Yes only this partner contributed such property anytime during the tax year.

**If Yes, itemize to explain.** If you answered Yes to the preceding question, you must provide, in a supporting statement for this line, a description of the property, the date it was contributed, and the amount of built-in gain or loss. Such contributions could affect this partner's tax liability.

## Schedule K-1

**All remaining lines automatically calculated at start.** When the Schedule K-1 is first created, lines 1 through 20 are automatically prorated from lines 1 through 20 of Schedule K based on the percentages you entered at line D of each Schedule K-1 and the distribution methods you chose for each line in the Distribution Worksheet. (Distribution Code 1 is used for all lines if you have not completed a Distribution Worksheet for the return. See the end of this document for details.) Whenever you make a change thereafter in any form or schedule in the return, the result is automatically reflected in Schedule K-1 using the same prorationing. In addition, any supporting statements created for any lines on Schedule K are automatically printed with Schedule K-1 with their amounts appropriately pro-rated. *HINT: Supporting statements that are created for lines on Schedule K cannot be viewed from Schedule K-1, even though they support Schedule K-1 lines as well and appear with the official printout of Schedule K-1. Only support that you create on a particular Schedule K-1 because you want it to supersede the Schedule K support can be viewed from Schedule K-1.*

**Line 14a, Net income from self-employment, is special.** Line 14a is computed independently of the Distribution Worksheet. It is computed based on the type of partner identified at line I in Part II of this Schedule K-1, and the amounts that have been distributed to lines 1, 3, and 4 of this Schedule K-1. If you identified the partner as a general partner at line I (Schedule K-1, Part II), lines 1, 3, and 4 are used in line 14a. Otherwise, only 4 is used. This computation is based on a simplified version of the *IRS Worksheet for Figuring Net Earnings (Loss) From Self-Employment* on page 28 of the IRS Form 1065 Instructions. *An adjustment line is provided above line 14a of Schedule K-1 for to handle cases for which this simple computation is inadequate.* For example, *you will have to make an adjustment if any of the income computed was not income derived from a trade or business as defined by the IRS* because partners are only liable for self-employment tax on income received in the regular course of the trade or business. In addition, estates and other special entities are not generally liable for the self-employment tax, so an adjustment is required so that line 14a is zero for those partners.

**Itemize a line to override the automatic distribution.** Although you may change an entry on a line of a particular Schedule K-1, that entry will not generally be permanent unless distribution method 9 (manual entry) was chosen. Instead, the automatic calculations will generally override your entry. You can permanently defeat the automatic distribution to a particular line on a particular Schedule K-1, however, by creating a general itemized list for that line. When you do so, the amount reported on the new itemized list overrides the automatic distribution, and the new itemized list is printed with the particular Schedule K-1, rather than the pro-rated version of the itemized list attached to Schedule K, which is still printed with all other Schedules K-1. You should explain to the IRS in this new itemized list why this Schedule K-1 does not follow the same distribution method as the other Schedules K-1.

**20c Other items and amounts.** Line 20c is a common example of the use of the itemizing feature described above. This line is provided to attach a supporting statement detailing any other information that must be reported separately to each partner. It is tied to line 20c of Schedule K for any K-1 that does not have a supporting statement of its own for this line. You may therefore report all the information required to be reported here in a supporting statement for line 20c of Schedule K, rather than here, if the proper allocation among partners is performed by our Distribution Worksheet, described at the end of this document. However, if the information to any particular partner is unique, it should be provided in a supporting statement for line 20c of that partner's Schedule K-1, and that supporting statement will appear in the final printout rather than a pro-rated version of the Schedule K, line 20c statement.

**Partner's Instructions for Schedule K-1.** You are required to submit a copy of *Partner's Instructions for Schedule K-1 (Form 1065)* to each partner along with the partner's Schedule K-1. Complete copies of these instructions are available at most IRS offices, or on the IRS web site at <http://www.irs.gov/formspubs>

A brief summary appears in Table PAR-3 to help guide partners who are individuals in their use of the information reported to them on Schedule K-1. This information is extracted from page 2 of the IRS Schedule K-1, which is a table with no data and is therefore not printed by the software. It is important, however, that the partners receive the COMPLETE IRS instructions, however, to determine their limitations on various deductions. The meanings of the table entries are contained in the details for Schedule K. The table identifies the destination on the individual partner's tax return for most lines of the Schedule K-1. For lines that carry the designation "See K-1 supporting statement," however, the general itemized list for that line should identify the specific destination for each component of the line.

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## Schedule K-1

Table PAR-3a. Individuals' Instructions for Schedule K-1 (lines 1-14)

DISTRIBUTIVE SHARE ITEM ON SCH. K-1	WHERE TO REPORT
1 Ordinary income (loss).	Sch. E Part II
2 Net income from rental real estate.	Sch. E Part II
3 Net income from other rentals.	Sch. E Part II
4 Guaranteed payments.	Sch. E Part II col (j)
5 Interest	Form 1040, line 8a
6a Ordinary dividends	Form 1040, line 9a
6b Qualified dividends	Form 1040, line 9b
7 Royalties	Sch. E Part I line 4
8 Net short-tm capital gain (loss)	Sch. D line 5(f)
9a Net long-tm capital gain (loss)	Sch. D line 12(f)
9b Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4, in Sch. D (1040) Instructions
9c Unrecaptured sec. 1250 gain	Unrecaptured 1250 Gain Worksheet in Sch. D (1040) Instructions
10 Net section 1231 gain (loss)	Form 4797 line 2
11 Other income (loss):	
A Other portfolio income	See K-1 supporting statement
B Involuntary conversions	Form 4684, Section B
C Section 1256 contracts	Form 6781, line 1
D Mining exploration cost recapture	See IRS Pub. 535
E Cancellation of debt	Form 1040, line 21
F Other income (loss):	
Spec allocated ordinary gain	Form 4797 line 10
Gain from 1252 recapture	Form 4797 Part III
Net gain/loss under 751(b)	Form 4797 line 10
ST non-portfolio net in D	Sch. D line 5
LT non-portfolio net in D	Sch. D line 12
Gain/loss from Form 4684	Form 4684, Section B
Other income/loss	See K-1 supporting statement
12 Section 179 deduction	Form 4562 Part I (except PTP)
13 Other deductions:	
A & B Cash contributions	Sch. A line 15
C & D Noncash contributions	Sch. A line 16 or Form 8283
E & F Capital gain property contr'n's	Sch. A line 16 or Form 8283
G Qualified contributions	Sch. A line 16
H Investment interest	Form 4952 line 1
J Section 59(e)(2) expenditures	See IRS instructions for K-1
W Other deductions:	
Interest not trade or bus.	Sch. A line 13
Deducns - portfolio income	See K-1 supporting statement
Net loss from Form 4684	Form 4684, Section B
Other deductions (itemize)	See K-1 supporting statement
14 Self-employment:	
A Net income from self-employment	Sch. E Part II and Sch. SE
B Gross farming/fishing income	Sch. E Part V & Sch. SE,B,II
C Gross non-farm income	Sch. SE,B,II

Table PAR-3b. Individuals' Instructions for Schedule K-1 (lines 15-20)

DISTRIBUTIVE SHARE ITEM ON SCH. K-1	WHERE TO REPORT
<b>15 Credits:</b>	
A & B Low-inc housing credit	Form 8586 line 4
C & D Low-inc housing credit	Form 8586 line 11
E Qlfd rehab rental real est	Form 3468, line 1
F Other rental real estate credit	See IRS instructions for K-1
G Other rental credits	See IRS instructions for K-1
H Undistributed capital gain credit	Form 1040, line 70a
I Alcohol used as fuel	Form 6478, line 5
J Work opportunity credit	Form 5884, line 3
K Disabled access credit	Form 8826, line 7
L Empowerment zone and renewal	Form 8844, line 3
M Increasing research	Form 6765
N Employer soc sec/Medicare tax crd.	Form 8846, line 5
O Backup withholding	Form 1040, line 64
P Other credits	See K-1 supporting statement
<b>16 Foreign transactions:</b>	
A Foreign country or U.S. possession	Form 1116 Part I
B through K, Income and deductions	Form 1116, Part I
L & M Foreign tax paid or accrued	Form 1116, Part II
N Reduc. in taxes avail. for credit	Form 1116 line 12
Q Other information	See K-1 supporting statement
<b>17 Alternative minimum tax (AMT) items:</b>	
A Post-1986 depreciation adjustment	Form 6251 line 19
B Adjusted gain or loss	Form 6251 line 18
C Depletion (excluding oil and gas)	Form 6251 line 10
D & E Gross income and deductions from oil, gas, and geothermal property	Form 6251 line 28
F Other AMT items	See K-1 supporting statement
<b>18 Tax-exempt income and nondeductible expenses:</b>	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See K-1 supporting statement
C Nondeductible expenses	See K-1 supporting statement
<b>19 Distributions:</b>	
A Cash and marketable securities	See K-1 supporting statement
B Other property	See K-1 supporting statement
C Other property subject to sec. 737	See K-1 supporting statement
<b>20 Other information:</b>	
A Investment income	Form 4952, line 4a
B Investment expense	Form 4952, line 5
D Qlfd rehabilitation expense	Form 3468, line 1
E Basis energy property	Form 3468, line 2
F & G Recapture low-income hsg crd.	Form 8611, line 8
H Recapture of investment credit	Form 4255
I Other recapture	See K-1 supporting statement
Y Other information	See K-1 supporting statement

### Form 2848\* / Power of Attorney and Declaration of Representative

\* **Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to authorize a qualifying individual to represent the partnership before the IRS. To qualify, that individual must be eligible to practice before the IRS. Unlike other forms in the software, you do *not* file Form 2848 as a part of the partnership's return. Instead, you must send the form to one of the special locations listed in the IRS instructions for this form or, if completed for a specific use, to the office handling the specific matter. Because it is a stand-alone form that is not filed with a return, Form 2848 is *accessible only from the Forms Menu, not through the Road Map.*

**Representatives the partnership appoints must be qualified.** Form 2848 requires that the representative to whom the partnership gives power of attorney be one of a select group of individuals, such as an attorney, CPA, enrolled agent, or other person qualified to represent the partnership before the IRS. You identify this person in Part I, but that person must complete and sign Part II to declare qualification as the partnership's representative. **BOTH PARTS MUST BE COMPLETED, SIGNED, AND DATED** or the IRS will not accept the Form 2848 you file.

**PART I, POWER OF ATTORNEY.** This part of the form is completed and signed by a partner who has authority to sign. The representatives to whom the partnership wants to give power of attorney are identified here along with the powers the partnership wants to give to them.

**1 Taxpayer information.** The information in this section is printed at the top of the official printed form.

**Employer ID number.** *(auto-calc)* Taken from your entry for the partnership's EIN on Form 1065, page 1.

**Plan number.** This entry applies only to employee plans that file a Form 2848 for the plan.

**Address, city, state, ZIP code.** *(auto-calc)* Taken from the complete address you enter on the main form for the return.

**Daytime telephone number.** Enter a daytime contact for the partnership.

**2 Representative(s).** You must fully identify the representatives the partnership appoints. The form provides space for only three representatives, but the partnership can appoint more in a supporting statement for the special line that follows these entries. The first representative will ordinarily receive a copy of notices and communications sent to the partnership by the IRS. See line 7 for details. *For each representative you must supply the following information:*

**Name.** Enter the full name in 35 characters or less.

**Address.** Enter the street address or P.O. box in 35 characters or less.



**City, state, and ZIP code.** Enter the city, state, and ZIP in 35 characters or less.

**CAF Number.** The IRS maintains a Centralized Authorization File (CAF) to keep track of appointed representatives and the tax matters and periods for which they have been given power of attorney. The first time a representative is appointed by anyone, he or she is assigned a lifetime 9-digit CAF number, and uses this number thereafter as identification to the IRS. If no such number has yet been assigned to a representative the partnership chooses, enter None here and the IRS will assign a number for the future.

**Telephone number.** Enter the representative's daytime phone number in 15 characters or less.

**Fax number.** Enter the representative's fax number in 15 characters or less.

**Answer Yes if any are new.** Answer Yes for each of the following that are different on this form from the entries in the CAF. Answer Yes to *all* that apply.

**Address.** Answer Yes only if changed from current CAF entry.

**Telephone number.** Answer Yes only if changed from current CAF entry.

**Fax number.** Answer Yes only if changed from current CAF entry.

**If more than three:**

**Itemize HERE to identify others.** Use this line to supply the same information as above for additional representatives the partnership appoints.

**3 Tax matters.** You must identify the type of tax or penalty for which the partnership is giving the representative(s) the power of attorney, including the related form number and the specific years (or other period) for which the partnership wants to grant the power of attorney. *For each category you must supply the following information:*

**Type of tax or civil penalty.** Enter here the type of return to which the representation applies, such as an individual income tax return or an employment return.

**Tax form Number.** Enter the related form number, such as Form 1065.

**Years or periods.** Enter range of years (or other period) for which the partnership wants to grant the power of attorney.

**If more than three:**

**Itemize HERE for others.** Use this line to supply the same information as above for additional categories.

**4 Specific use not recorded on CAF.** Some uses of the power of attorney are not recorded on the CAF, such as requests for private rulings or requests to change accounting methods. Answer Yes here ONLY if the use is such that the CAF does not apply. See IRS instructions for details. If you answer Yes, the partnership should

send Form 2848 to the office handling the specific matter rather than one of the addresses in the IRS instructions.

**5 Acts authorized.** The IRS Form 2848 (and our graphic printouts) list specific acts that are automatically authorized by the power of attorney unless you modify that list here.

**List additions or deletions.** Eight 25-character entry lines are provided for you to supply an explanation that fits on the form.

**Itemize HERE for others.** If the space on the form is insufficient, provide more changes to authorized acts in a supporting statement for this line.

**6 Receipt of refund checks.** By entering a name below the partnership can authorize a representative identified in line 2 to receive a refund check for any return listed in line 3. The representative must also initial by hand the space provided at line 6 to confirm the partnership's intent.

**Name of representative to receive refund checks.** The person must also be listed in line 2. This person will not have the right to endorse or cash the refund check, but only to receive it for the partnership.

**7 Notices and communications.** Normally both the partnership and the first representative listed in line 2 will be sent notices and communications related to the tax matters listed in line 3. However, you can modify this practice by your answers to the following questions:

**a Do you also want the second representative to receive notices and communications?** If you answer Yes, the partnership and the first two representatives will all receive the notices and communications.

**b Do you not want any notices and communications sent to representatives?** If you answer Yes, only the partnership will receive the notices and communications.

**8 Retention/revocation of prior power(s) of attorney.** Normally the IRS will revoke a prior power of attorney when they receive this form if it applies to the same tax matters and periods as listed in line 3. However, you can modify this practice as follows:

**Do you not want to revoke a prior power of attorney?** If you answer Yes, the prior power(s) of attorney will not be revoked.

**9 Signature of taxpayer(s).** The form must be hand signed by the taxpayer(s) identified in line 1, including spouse if married filing jointly.

**PART II, DECLARATION OF REPRESENTATIVE.** This part of the form must be completed by hand and signed by all representatives listed in line 2. Once you complete Form 2848, the representatives must complete, by hand, the bottom of Form 2848 page 2, using the information on the official form and the detailed IRS instructions for Part II.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 3468 / Investment Credit

**Purpose.** A tax credit is available for qualified investment in certain favored kinds of property, as explained in the details for Form 3468 in Chapter 2 of the main *Tax Forms Guide 2010 Edition*. The partnership cannot claim any of these credits for its own return, but must allocate to partners all expenditures that qualify for the credit so that each partner can claim credit on his or her own Form 3468. As a result, there are a number of differences in calculations and posting of amounts, as explained here. However, details for data entry are given in the main *Tax Forms Guide 2010 Edition*, not here, because they apply for both Form 1040 and Form 1065 returns. *Form 3468 is accessible through the Road Map at line 15c of Schedule K (Form 1065, page 4) and at the component of line 15f labeled "Unused ITC from coops."*

**Characteristics of the Form 3468 for partnership returns.** Although you must use the main *Tax Forms Guide 2010 Edition* for guidance in your data entry, you should note the following differences from the Form 3468 for Form 1040 returns:

- **All credit lines compute as zero.** Since the partners, not the partnership, must claim the credits based on the raw data provided by the partnership, all computed credit lines are zero for a partnership return. For example, at line 5a you must enter the basis of the property (printed to the left of the computed line on the official form), but the computed line (20% of the basis) remains zero. Most lines of Form 3468 follow this pattern; you will allocate the basis of property among partners, but will not report any credit to the partners. However, calculated lines that are not allocated among partners, such as those relating to horsepower or kilowatt or megawatt capacity, are computed for use on each partner's Form 3468.
- **Additional information required for rehabilitation expenditures.** Form 3468 does not provide for it, but the partnership return requires that you separately identify those rehabilitation expenditures related to rental real estate and those that are not. You must identify the real estate portion at the bottom of screen 5 of our Form 3468, in the section titled *Allocation of rehabilitation expenditures to Schedule K, line 15c or 20c*, which detailed on the next page.
- **Additional information required for rehabilitation expenditures.** Form 3468 does not provide for it, but the partnership return requires that you separately identify those rehabilitation expenditures related to rental real estate and those that are not. You must identify the real estate portion at the bottom of screen 5 of our Form 3468, in the section titled *Allocation of rehabilitation expenditures to Schedule K, line 15c or 20c*, which detailed on the next page.
- **Posting of results is more complex.** On a Form 1040 return, the computed credits are posted to line 1a and/or 29a of Form 3800. But for a Form 1065 return, basis amounts are separated into four types for posting to Schedule K. The posting is summarized on the last screen of

our Form 3468, in the section titled *Summary of Parts II and III*, which is detailed on the next page.

- **Itemizing on Schedule K may be required.** Although basis totals are automatically posted to the proper lines on Schedule K and distributed to partners on their Schedules K-1, you may have to provide details in supporting statements for Schedule K. Although you can provide each partner with a copy of the partnership's Form 3468 along with an explanation of the proportion of the basis entries that apply, it is preferable to provide the information in supporting statements for Schedule K so that the proper prorated amounts automatically appear with each partner's Schedule K-1. See our instructions for Schedule K for details.

**Allocation of rehabilitation expenditures to Schedule K, line 15c or 20c.** (*This section appears at the bottom of screen 5 of Form 3468.*) Amounts for rehabilitation credits must be separately identified as relating to rental real estate or not because they are separately reported on line 15c (code E) and line 20c (Code D), respectively, of Schedule K. As a result, you must identify here the amounts in lines 10e through 10j and 10m that apply to rental real estate.

**Sum of basis on lines 10e through 10j and line 10m.** *(auto-calc)* Computed as the sum of basis amounts entered for lines 10e, 10f, 10g, 10h, 10i, and 10j, plus the amount on line 10m. This is the total that must be separated into rental real estate and other than rental real estate.

**Rental real estate in the above.** Enter the part of the above total related to rental real estate activities. This amount will be posted to line 15c of Schedule K for distribution to partners as code E in box 15 in each partner's Schedule K-1.

**Other than rental real estate.** *(auto-calc)* Computed as the remainder of "Sum of basis on lines 10e through 10j and line 10m" less "Rental real estate in the above." This amount will be posted to line 20c of Schedule K for distribution to partners as code D in box 20 in each partner's Schedule K-1.

**SUMMARY OF PARTS II AND III.** (*This section appears at the top of screen 10 of Form 3468.*) All amounts that must be reported to partners are summarized here.

**Rehabilitation expenditures (rental real estate) for Schedule K, line 15c (code E).** *(auto-calc)* Taken from the amount you entered at the bottom of screen 5 of Form 3468, this amount is posted to Schedule K and the distributive share is shown on each partner's Schedule K-1 as code E in box 15.

**Unused investment credit from cooperatives for Schedule K, line 15f (code P).** *(auto-calc)* Computed as the sum of lines 8 and 12 of Form 3468, this amount is posted to Schedule K and the distributive share is shown on each partner's Schedule K-1 as code P in box 15.

**Rehabilitation expenditures (other than rental real estate) for Schedule K, line 20c (code D).** *(auto-calc)* Taken from the amount computed at

the bottom of screen 5 of Form 3468, this amount is posted to Schedule K and the distributive share is shown on each partner's Schedule K-1 as code D in box 20. You can provide details to partners by itemizing the amounts in a supporting statement for the line on Schedule K. The prorated shares will then be included in a supporting statement for each partner's Schedule K-1. See our instructions for Schedule K for details.

**Energy property (line 5 or 11) for Schedule K, line 20c (code E).** *(auto-calc)* Computed as the sum of basis amounts for lines 11a, 11b, 11c, 11f, 11i, 11l, 11o, 11q, 11r, and 11s. This total is posted to Schedule K and the distributive share is shown on each partner's Schedule K-1 as code E in box 20. You can provide details to partners by itemizing the amounts in a supporting statement for the line on Schedule K. The prorated shares will then be included in a supporting statement for each partner's Schedule K-1. See our instructions for Schedule K for details.

**CAUTION: Below amount is NOT automatically posted to Schedule K:**  
**Advanced coal project, gasification project, and advanced energy project property for Schedule K, line 20c (code Y).** *(auto-calc)* Computed as the sum of basis amounts for lines 5a, 5b, 5c, 6a, 6b, and 7a. The distributive share of this total is shown on each partner's Schedule K-1 as generic code X in box 20. These amounts must be itemized in a supporting statement for line 20c of Schedule K (at the line "Other to report (itemize)") so that the distributive share of the basis for each credit is available to each partner.

### Form 4255\* / Recapture of Investment Credit

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to figure a tax due to the recapture of an Investment Tax Credit (ITC) previously claimed via Form 3468. Recapture arises if, within 5 years of the date placed in service, you dispose of the property, change its use to a nonqualified use, returned leased property, reduce ownership or business use below acceptable limits, etc. See the IRS Form 4255 Instructions for a complete list of actions that require recapture and exceptions that forgive you from it. *Form 4255 is accessible through the Road Map at the component of line 20c of Schedule K labeled "4255 Investment credit recap."*

**ORIGINAL INVESTMENT CREDIT.** All information for this section (lines 1 through 6) plus lines 7 and 8 of the next section is entered on the supporting worksheets accessed from line 3, below.

- 1 **Original rate credit.** See supporting worksheet.
- 2 **Cost or other basis.** See supporting worksheet.
- 3 **Original credit.** *(Supported by the ITC Recapture Worksheet, Figure PAR-9.)* All information for this form must be entered on the supporting worksheets. Although the sum of original credits on the worksheets appears here, only information on the individual worksheets is printed on the official Form 4255, in accordance with the IRS design of the form.
- 4 **Date placed in service.** See supporting worksheet.
- 5 **Date ceased qualification.** See supporting worksheet.
- 6 **Number of full years between the date on line 4 and the date on line 5.** See supporting worksheet.

ITC RECAPTURE WORKSHEET		
Type of property.....:		
(rehab, energy, etc.).....:		
1	Original rate of credit(%)	0
2	Cost or other basis.....	0
3	Original credit.....	0
4	Date placed in service...	
5	Date ceased qualification.	
6	No. full yrs. btwn 4 & 5....	0
7	Recapture percentage.....	100.
8	Tentative recapture tax....	0

**ITC Recapture Worksheet.** *(Figure PAR-9)*  
 You must identify each property and the details of the previously claimed credit for each.

**Type of property**  
 (rehab, energy, etc.) Describe the property in the two 30 character entry lines provided,

Figure PAR-9. ITC Recapture Worksheet

and identify whether the property is rehabilitation, energy, reforestation, or transition property.

- 1 **Original rate of credit (%)**. Enter the credit percentage from the original Form 3468 used to claim the credit, whether or not all the credit has been claimed.
- 2 **Cost or other basis**. Enter the basis used to figure the credit from the original Form 3468 used to claim the credit.
- 3 **Original credit**. *(auto-calc)* Computed line 2 times the percentage on line 1, this is the original allowed credit allowed.
- 4 **Date property was placed in service**. Enter the date in the standard mm/dd/yyyy format.
- 5 **Date property ceased to be qualified investment credit property**. Enter the date in the standard mm/dd/yyyy format.
- 6 **Number of full years between dates on lines 4 and 5**. *(auto-calc)* Computed as indicated. You are liable for no recapture if this number is 5 or more, and you should remove the worksheet for such property.
- 7 **Recapture percentage**. *(auto-calc)* The recapture percentage is 100% if the line 5 is less than a year from line 4, and drops by 20% for every full year thereafter.
- 8 **Tentative recapture tax**. *(auto-calc)* Computed as line 3 times the percentage on line 7, this is the recapture tax for this property.

**RECAPTURE TAX.** The additional tax due to ITC recapture is figured here based on totals from the worksheets and two adjustments.

- 7 **Recapture percentage**. See supporting worksheet.
- 8 **Tentative recapture tax**. See supporting worksheet.
- 9 **Add all amounts on line 8**. *(auto-calc)* Computed as the sum of line 8 from all supporting worksheets, for most taxpayers this is the recapture tax due. However, special circumstances can increase or reduce the tax, as follows.
- 10 **Recapture tax from property with an increase in nonqualified non-recourse financing**. The basis of the property is limited to the amount at risk if you use "nonqualified nonrecourse financing." In a supporting statement for this line, enter in the amount column the recapture tax due to an increase in nonqualified nonrecourse financing at year-end and explain the computation in the description column. See IRS section 49(b) for details.
- 11 **Add lines 9 and 10**. *(auto-calc)* Computed as indicated.
- 12 **Part of line 3 not used to offset tax in any year, plus any carryback or carryforward you can now apply**. If you could not claim the entire original credit in the tax year when the property was first placed in service or any subsequent year, you can reduce the recapture tax by the amount of credit not claimed. See IRS Form 4255 instructions for details on this and the carryforwards and carrybacks that apply. Your entry here is limited to no more than line 11.
- 13 **Total increase in tax**. *(auto-calc)* Computed as line 11 less line 12, this is the total recapture tax for which you are liable.

The amount on line 13 is posted to the component of line 20c of Schedule K (Form 1065, Page 4) labeled "4255 Investment credit recap." and each partner's share is reported on the partner's Schedule K-1 as code H in box 20.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.



## Form 4562 / Depreciation and Amortization

**How to use it.** Form 4562 is used to report section 179 expenses, depreciation, and amortization in support of deductions on Form 1065 Page 1, Schedule A, Schedule F, and Form 8825. One copy of Form 4562 is available for each separate copy of each supported form, plus three extra copies for use with any form not built into the software. The separate forms are attached permanently to the forms they support to ensure reliable posting of results. Whenever you access Form 4562 by itemizing from a supported form, the Form 4562 that appears is automatically the one that supports the line and form itemized. When you access Form 4562 from the Forms Menu, however, you are presented with a special menu from which you can select the copy you want. See the section on Form 4562 in Chapter 2 of the main *Tax Forms Guide 2010 Edition* for details on this form, subject to the following variations.

**Sec. 179 expense subject to special handling.** Because section 179 expense deductions are passed through to partners and *NOT* deducted by the partnership, section 179 expense deductions are NOT included in the depreciation total on line 22 of Form 4562. Moreover, as noted for line 12 of Schedule K, additional limitations may apply when the sum of the amounts on line 12 from all copies of Form 4562 exceeds the net income of the partnership. The results at line 12 of each copy of Form 4562 is passed through the appropriate form to Schedule K line 12, where they are summarized for partners and distributed to each partner's Schedule K-1.

**Fiscal year filers subject to different data limitations.** The IRS Form 4562 was designed with calendar years in mind, so certain lines must be reinterpreted with fiscal years in mind. In particular, section 179 amounts relate only to assets acquired in the current fiscal year, and depreciation deducted through lines 15a through 16c relates only to assets acquired in the current fiscal year. The date protections that are built into the various depreciation worksheets take into account the month as well as the year in which the current tax year starts, based on your date entries on the Control Form.

## Form 4684 / Casualties and Thefts

**How to use it.** Form 4684 is used to report gains and losses stemming from casualties and thefts. You should complete this form in accordance with the instructions in the main *Tax Forms Guide 2010 Edition*. However, posting of the results of this form to other parts of the return is different for partnership returns. Since Section A (page 1 of the form) is used for Personal Use Property and Section B (page 2 of the form) is used for Business and Income-Producing Property, and the partnership is a business or investment entity, only Section B is relevant to the partnership. As a result, only amounts from Section B are posted elsewhere in the return, to Schedule K and Form 4797. Nevertheless, if the partnership suffers a casualty or theft of *personal* property, it should report that loss to the partners so that they can complete their own Form 4684. For this purpose, the partnership can complete Section A of Form 4684 and give a copy to each partner, but no amounts from this section of the form are posted elsewhere on the partnership return.

**Posting of results on Form 4684 to Schedule K and Form 4797.** The results in Section B of Form 4684 are posted as follows:

- **35 Combine line 34, columns (b)(i) and (c).** *(auto-calc)* Computed as the net of short-term loss on business property (line 34(b)(i)) and short-term gain on both business and income property (line 34(c)), this amount is posted to line 14 of Form 4797. (The IRS label for line 14 of Form 4797 refers to line 42a as well as line 35, but only line 35 is posted to Form 4797 for partnership returns.)
- **36 Amount from line 34 column (b)(ii).** *(auto-calc)* Computed as the short-term loss on income-producing property *ONLY*, this amount is posted to Schedule K as a component of line 13d (Net loss from Form 4684) as a miscellaneous deduction to be reported on each partner's Schedule A, line 28.

Below line 45:

- **Total for Schedule K, line 11.** *(auto-calc)* Computed as line 42a (the net of loss on 39(b)(i) and gain on 40) less line 42b (the loss on 39(b)(ii)) plus line 44 (the gain on 40 less loss on 41, but no less than zero), this is long-term gain or loss on both business and income property. It is posted to Schedule K as a component of line 11 (Code B Involuntary conversions), and is separately reported on each partner's own Form 4684.

If any amounts are posted to line 11 of Schedule K, the partners must complete their own Form 4684 for their own returns. The partners will therefore need to know their share of the amounts on lines 39(b)(i), 39(b)(ii), and 40(c) of Form 4684. For this purpose, we recommend that you give each partner a copy of the partnership's Form 4684 and identify the partner's prorated share of each part of line 39 and 40.

## Form 4797 / Gain and Loss from Sales or Exchanges

**Variation from Form 1040 returns.** Although you use the same IRS Form 4797 for Form 1065 returns (for partnerships) as you do for Form 1040 returns (for individuals), there are several differences in how the calculations are performed:

- Passive activity issues are not relevant to the partnership, so the extra lines we provide for passive activities are omitted. The calculations and posting of results operate similar to those for non-passive activities.
- The results for Parts I are not reflected in Part II as they sometimes are for individual returns. Instead, the total at line 7 (the total Section 1231 gain or loss) is posted directly to line 10 of Schedule K, for distribution to each partner's Schedule K-1.
- Line 8 (nonrecaptured net section 1231 losses from prior years) and the calculated lines 9, 11, and 12 are not relevant to partnerships, so access to these lines is blocked and they remain zero on partnership returns.
- Line 14 includes only the amount from line 35 of Form 4684. The amount on line 42a is included in line 7 of Schedule K instead.
- Line 17 (total ordinary gain or loss) is normally posted to line 6 of Form 1065 Page 1 for inclusion in the partnership's net ordinary income or loss (line 22 of Form 1065 Page 1, which flows to line 1 of Schedule K for distribution to line 1 of each partner's schedule K-1). But if line 17 includes ordinary income or loss from rental real estate, it is reported on Form 8825, *Rental Real Estate Income and Expenses*, instead.

See the section on Form 4797 in Chapter 2 of the main *Tax Forms Guide 2010 Edition* for other details.

**Posting to Form 1065 and Form 8825.** This section appears on the screen below line 17 as an aid to the proper allocation of line 17 between line 6 of Form 1065 Page 1 and line 19 of Form 8825. **CAUTION: You must create a Form 8825 for the return if any amount is identified below for rental real estate.** It is accessible through the Road Map at line 2 of Schedule K.

**Active rental real estate in line 10(g).** *(auto-calc)* Taken as the ordinary gains and losses on the worksheets for active rental real estate.

**Other rental real estate in line 17.** If line 17 includes any other amounts from the disposition of rental real estate, whether active or not, enter that part of line 17 here.

**Rental real estate in line 17 for Form 8825.** *(auto-calc)* Computed as the sum of the preceding two lines, this total is posted to line 19 of Form 8825, and is therefore reflected in line 2 of Schedule K.

**Balance for Form 1065, line 6.** *(auto-calc)* Computed as line 17 less the preceding amount for Form 8825, and posted as indicated, this amount is reflected in line 1 of Schedule K through the net ordinary gain or loss at line 22 of Form 1065, Page 1.

## Form 4835\*\* / Farm Rental Income and Expenses

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of the Partnership Edition.

**Purpose.** This form is used to report farm rental income when you own the property on which the farm operates, the rental income is based on production rather than a flat rate, and you did not materially participate in the operation of the farm. The amount of Gross Income on line 7 of this form is reported at line 3a of Schedule K, and the amount of Total Expenses on line 31 is reported at line 3b of Schedule K. The resulting net income or loss is shown in box 3 of each partner's Schedule K-1, and the partner reports it at line 28 of his or her Schedule E (Form 1040). *Form 4835 is accessible through the Road Map at lines 3a and 3b of Schedule K.*

**Refer to main Tax Forms Guide for details.** Form 4835 for partnerships is the same as the one for individuals except for the omission of passive activity questions and amounts, none of which are relevant to a partnership, and the posting of results to Schedule K, noted above. As a result, most details for Form 4835 in Chapter 2 of the main Tax Forms Guide 2010 Edition apply.

## Form 5884\* / Work Opportunity Credit

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used by employers to claim credit for first-year wages to certain targeted groups (and now second-year wages to one of these groups). The credit is claimed by partners, not the partnership, so only lines 1 through 4 apply. The result on line 4 is posted to line 15f of Schedule K and each partner's share of this amount is posted the partner's Schedule K-1 as code J in box 15. Each partner then includes this amount on line 3 of the partner's own Form 5884. *Form 5884 is accessible through the Road Map at the credit component of line 15f of Schedule K labeled "5884 Work opportunity."*

**Certification usually required.** In order to claim this credit *you must usually have certification for each employee* from the state employment security agency (SESA). You either must have received the certification for a particular employee by the employee's first day of work or must complete a Form 8850 by that date (signed by you and the employee) and file it by the 28<sup>th</sup> day after the employee starts work. You can claim the credit only if the request on Form 8850 is approved. If approved and later revoked, you can still generally claim the credit for the days before the revocation. See the IRS Instructions for Form 5884 for details on this and other requirements for this credit.

**Targeted groups.** The targeted groups to which Form 5884 apply include:

- ◆ *Hurricane Katrina employees.* Employers in the Katrina disaster area can get credit for new hires in the 4-year period after August 28, 2005. (The former 2-year period was extended to 4 years.) Unlike other qualified employees, Hurricane Katrina employees do not have to be certified as members of a targeted group.
- ◆ *Long-term family assistance recipients.* Commonly called welfare recipients, for this group second-year wages are eligible for the credit in addition to first-year wages. However, only the first \$10,000 of wages of any one employee in any one year can be considered for the credit. (Credit for this targeted group was formerly claimed on Form 8861, *Welfare-to-Work Credit*, not Form 5884. However, Form 8861 has been integrated into Form 5884 for hire dates after December 31, 2006. *For hire dates before 2007, you must use Form 8861*, not Form 5884, where second-year wages paid in 2008 are eligible for hire dates before January 1, 2007.)
- ◆ *Qualified veteran.* Only the first \$12,000 of wages of any one employee in any one year can be considered for the credit.
- ◆ *Qualified recipient of Temporary Assistance for Needy Families (TANF).*
- ◆ *Qualified ex-felon.*
- ◆ *Designated community resident.*
- ◆ *Vocational rehabilitation referral.*

- ◆ *Summer youth employee.*
- ◆ *Food stamp recipient, now officially called a Supplemental Nutritional Assistance Program (SNAP) recipient.*
- ◆ *SSI recipient.*
- ◆ *Unemployed veteran.*
- ◆ *Disconnected youth.*

The first-year wages of employees in these groups are all eligible for the credit. The second-year wages are eligible only for employees who are long-term family assistance recipients (the first group in the above list). See IRS 2009 Instructions for Form 5884 for restrictions on wages that qualify.

**1 Total qualified first- and second-year wages paid or incurred during the tax year for services of employees who are certified (if required) as members of a targeted group:**

**a Qualified first-year wages of employees who worked for you at least 120 hours but fewer than 400 hours.:**

**Wages for line 1a.** Enter only first-year wages paid or incurred within the tax year of the return. *Remember that qualifying wages for two of the targeted groups are limited, as detailed in the list of targeted groups.*

**X 25%...1a. (auto-calc)** Computed as the sum of wages on the preceding line times 0.25.

**b Qualified first-year wages of employees who worked for you at least 400 hours.** Employees who you retain in your employment 400 hours or more qualify you for a higher credit.

**Wages for line 1b.** Enter only first-year wages paid or incurred within the tax year of the return. *Remember that qualifying wages for two of the targeted groups are limited, as detailed in the list of targeted groups.*

**X 40%...1b. (auto-calc)** Computed as the sum of wages on the preceding line times 0.40.

**c Qualified second-year wages of employees certified as long-term family assistance recipients.** Only certified long-term family assistance recipients qualify you for credit on second-year wages, irrespective of the amount worked.

**Wages for line 1c.** Enter only second-year wages paid or incurred within the tax year of the return. *Only the first \$10,000 of any one employee's second-year wages qualifies.*

**X 50%...1c. (auto-calc)** Computed as wages on the preceding line times 0.50.

**2 Add lines 1a, 1b, and 1c. (auto-calc)** Computed as indicated. **CAUTION:** *You must generally reduce the deduction for wages and salaries on the return by the amount on line 2, entering that amount on the line above line 9 of our Form 1065, page 1 labeled "Less employment credits."*

**ITEMIZE to explain exception.** If an exception applies to reducing the deduction by the amount on line 2, itemize here to explain.

**Special instructions for line 2 if a member of a controlled group.** If claiming the credit as a member of a controlled group, you must compute line 2 as your prorated share of the credit. The credit must first be computed for the group as a whole, reflecting the calculations for lines 1a and 1b. Then each group member must complete a Form 5884 for his or her own return by skipping lines 1a and 1b and entering on line 2 a prorated portion of the group total. Prorating of line 2 among group members must be in direct proportion to the amount of qualifying wages contributed by each member. To accomplish this with the software while satisfying the IRS reporting requirements, press the Override Key (F8) to access line 2, then, in a supporting statement for line 2, explain how the group credit was divided among the members, entering only *your* amount in the amount column. Your explanation will then be printed with the return and cross-referenced on the official printout.

**3 Work opportunity credit from partnerships, S corporations, cooperatives, estates, and trusts.** Enter any work opportunity credit allocated to the partnership from another pass-through entity. The amount to enter here should have been reported to the partnership on a Schedule K-1 from the entity (or a written statement from a cooperative).

**4 Add lines 2 and 3. *(auto-calc)*** Computed as indicated, this is the credit to be passed through to partners. It is posted to the credit component of line 15f of Schedule K labeled "5884 Work opportunity," then allocated among partners for their Schedules K-1. The allocated amount is identified as code J in box 15 of each partner's Schedule K-1.

**5 through 12. *(auto-calc)*** Because the amount on line 4 is passed through to partners, all remaining lines on this form are zero for a partnership return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 6252 / Installment Sale Income

See main **Tax Forms Guide for details**. Form 6252 of the Partnership Edition is identical to the one for Form 1040 except that the passive activity questions and the sale of a main home are not relevant to the partnership.

- Passive activity issues are not relevant to the partnership, so the extra lines we provide for passive activities are omitted and line.
- Main home sales are not relevant to partnerships, so line 15 of Form 6252 is always zero.
- Allocations to Schedule D on screen 7 relate to Schedule D (Form 1065), not Schedule D (Form 1040).

As a result, most details for Form 6252 in Chapter 2 of the main *Tax Forms Guide 2010 Edition* apply. This form is used to report the sale of property for which you elect the installment method of reporting the gain in order to avoid reporting the entire gain in the year of sale. A separate copy of Form 6252 must be prepared for each separate sale you report on an installment basis. Five separate copies are available with this software. *Form 6252 is accessible through the Road Map at lines 3 and 9 of Schedule D (Form 1065), and at lines 4, 10, and 15 of Form 4797.*



## Form 6478\* / Alcohol and Cellulosic Biofuel Fuels Credit

\* **Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to claim four different credits: the alcohol mixture credit, the alcohol credit, the small ethanol producer credit, and now the cellulosic biofuel fuels credit. *Form 6478 is accessible through the Road Map at the credit component of line 15f of Schedule K labeled "6478 Alcohol used as fuel."*

**See IRS instructions for important details.** The law is very specific about what specific kind of fuel is eligible for what specific credit, so a careful reading of the IRS Instructions for Form 6478 is critical. The section titled Definitions and Special Rules is especially helpful in understanding the meaning of the IRS labels for the lines of the form. *The IRS form shows ONLY rates that apply to ethanol for lines 2 and 3, and the rates for other alcohol appear only in the IRS instructions. Conversely, the IRS form shows ONLY the rate for other than ethanol for line 4, and the rate for ethanol appears only in the IRS instructions.* The software is designed to handle ALL types of eligible fuel, with computations that involve many more rates than are visible on the form. While the details are not evident on the IRS form because of its limited design, the software shows all details on the screen for clarity. Furthermore, when a rate different from that shown on the form is used in the calculations, the official printout will show the additional rate used in addition to the preprinted rate. When there is a question about a calculation you should therefore rely on the IRS instructions, not the IRS form.

### 1 Qualified ethanol fuel production:

- (a) **Number of gallons sold or used.** Report here only gallons of ethanol produced by an eligible small ethanol producer, who, as defined in the IRS instructions, cannot have more than 60 million gallons of productive capacity. Your entry is limited to no more than 15 million gallons.
- (b) **Rate.** *(auto-calc)* The rate is always 10 cents per gallon.
- (c) **Column (a) X Column (b).** *(auto-calc)* Computed as indicated, column (c) holds the computed credit for all lines of the form.

### 2 Alcohol 190 proof or greater and alcohol 190 proof or greater in fuel mixtures:

- (a) **Gallons from ethanol.** Enter here the number of gallons only for alcohol from ethanol.  
**Other than from ethanol.** Enter here the number of gallons only for alcohol *other than* from ethanol.
- (b) **Rate for ethanol.** *(auto-calc)* The rate for ethanol is 45 cents per gallon.  
**Rate for other than ethanol.** *(auto-calc)* The rate for other than ethanol 60 cents per gallon. This rate is printed on the official form

above the preprinted \$.45 when an amount for "Other than from ethanol" is entered for column 2(a).

**ITEMIZE excise tax benefit received.** The credit the partnership can claim for line 2 is reduced by any excise tax benefit received for qualified methanol or ethanol fuel as reflected on Form 720.

(c) **Column (a) X Column (b).** *(auto-calc)* Computed as \$.45 times the gallons for ethanol in column 2(a) *plus* \$.60 times the gallons for other than ethanol in column 2(a) *less* the preceding excise tax benefit received. This is the only number that is printed in column 2(c) of the official form.

### **3 Alcohol less than 190 proof but at least 150 proof and alcohol less than 190 proof but at least 150 proof in fuel mixtures:**

(a) **Gallons from ethanol.** Enter here the number of gallons only for alcohol from ethanol.

**Other than from ethanol.** Enter here the number of gallons only for alcohol *other than* from ethanol.

(b) **Rate from ethanol.** *(auto-calc)* The rate for ethanol is 33.33 cents per gallon.

**Rate from other than ethanol.** *(auto-calc)* The rate for other than ethanol is 45 cents per gallon. This rate is printed on the official form above the preprinted \$.3333 when an amount for "Other than from ethanol" is entered for column 3(a).

**ITEMIZE excise tax benefit received.** The credit the partnership can claim for line 3 is reduced by any excise tax benefit received for qualified methanol or ethanol fuel as reflected on Form 720.

(c) **Column (a) X Column (b).** *(auto-calc)* Computed as \$.3333 times the gallons for ethanol in column 3(a) *plus* \$.45 times the gallons for other than ethanol in column 3(a) *less* the preceding excise tax benefit received. This is the only number that is printed in column 5(c) of the official form.

### **4 Qualified cellulosic biofuel produced after 2008 that is alcohol.**

(a) **Gallons from ethanol.** Enter here the number of gallons only for alcohol from ethanol.

**Other than from ethanol.** Enter here the number of gallons only for alcohol *other than* from ethanol.

(b) **Rate from ethanol.** *(auto-calc)* The rate for ethanol is 46 cents per gallon. This rate is printed on the official form above the preprinted \$.41 when an amount for "Gallons from ethanol" is entered for column 4(a).

**Rate from other than ethanol.** *(auto-calc)* The rate for other than ethanol is 41 cents per gallon.

**ITEMIZE excise tax benefit received.** The credit the partnership claim for line 4 is reduced by any excise tax benefit received for qualified methanol or ethanol fuel as reflected on Form 720.

(c) **Column (a) X Column (b).** *(auto-calc)* Computed as \$.46 times the gallons for ethanol in column 4(a) *plus* \$.41 times the gallons for

other than ethanol in column 4(a) less the preceding excise tax benefit received. This is the only number that is printed in column 4(c) of the official form.

**5 Qualified cellulosic biofuel produced after 2008 that is not alcohol.**

(a) **Number of gallons sold or used.** Enter here the number of gallons only for non-alcoholic qualified cellulosic biofuel.

(b) **Rate.** *(auto-calc)* The rate for non-alcoholic qualified cellulosic biofuel is \$1.01.

**ITEMIZE excise tax benefit received.** The credit the partnership claim for line 5 is reduced by any excise tax benefit received for qualified methanol or ethanol fuel as reflected on Form 720.

(c) **Column (a) X Column (b).** *(auto-calc)* Computed as 1.01 times the number of gallons sold or used less the preceding excise tax benefit received. This is the only number that is printed in column 5(c) of the official form.

**6 Add amounts in column (c) on lines 1 through 5.** *(auto-calc)* Computed as the sum of credits resulting for lines 1 through 5.

**CAUTION: You must report line 6 as income on the partnership return in order to qualify a partner for the credit.** The credit on Form 6478 is allowed only as an offset to income reported on the return for the claimed fuel. Even though the credit is passed through to partners and may be limited by tax liability on the partners' returns, *you must report the full amount on line 6 as income on the "other income" line of Form 1065, which is line 7 of Form 1065, page 1.* To do so, in a supporting statement for line 7 of Form 1065, page 1, you should enter "Fuel claimed as credit on 6478" in the description column and the amount on Form 6478, line 6, in the amount column.

**From partnerships, S corporations, estates, or trusts:**

**Small ethanol producer credit (itemize)** If the partnership has any small ethanol producer credit from a pass-through entity, enter the amount in a supporting statement for this line. In the text column of the support provide the number of gallons for which the credit was claimed and the productive capacity for alcohol. In the amount column enter only the amount of small ethanol producer credit.

**Allowed part of the above.** *(auto-calc)* Computed as the lesser of the preceding entry and \$1,500,000. This limitation stems from the fact that the preceding amount is subject to the same limitations as apply to line 1(a) of this form. (Since no more than 15,000,000 gallons can be claimed and the credit is 10 cents per gallon, the credit can be no more than \$1,500,000.)

**Other alcohol fuel credits.** Enter here all other alcohol and cellulosic biofuel fuels credits from pass-through entities.

**7 Alcohol and cellulosic biofuel fuels credit from a partnership, S corporation, estate, or trust.** *(auto-calc)* Computed as the sum of the preceding two lines.

**8 Add lines 6 and 7, column (c).** *(auto-calc)* Computed as indicated, this is the credit passed through to partners.

The amount on line 8 is posted to the credit component of line 15f of Schedule K labeled "6478 Alcohol used as fuel." Each partner's share is then reported in box 15 of the partner's Schedule K-1 with the code I. A partner who is an individual will then report this amount on line 7 of his or her own Form 6478 for his or her Form 1040 return.

**REMAINDER OF FORM NOT RELEVANT TO PARTNERSHIPS.** The remainder of the form applies only to individuals, cooperatives, estates, and trusts. As a result, lines 9 through 16 of Form 6478 are always zero for this Partnership Edition.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders

## Form 6765\* / Credit for Increasing Research

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to claim credit for investment in technological research over and above what was invested in the prior year. Form 6765 is accessible through the Road Map at the credit component of line 15f of Schedule K labeled "6765 Increasing research."

**Refer to main Tax Forms Guide for details.** Form 6765 for partnerships is identical to Form 6765 for individuals except for the necessity to indicate related taxable income for the latter. As a result, most details for Form 6765 in Chapter 2 of the main *Tax Forms Guide 2010 Edition* apply.

## Form 6781\* / Gains and Losses from Section 1256 Contracts and Straddles

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to report gains and losses from an investment in futures contracts and non-equity options, and from commodity dealers' equity options and security contracts. Form 6781 is accessible through the Road Map at the Form 6781 lines that precede lines 2 and 8 of Schedule D and the Code C component of line 11 of Schedule K on Form 1065, Page 4.

**Refer to main Tax Forms Guide for details.** Form 6781 for partnerships is the same as Form 6781 for individuals except:

- Partnerships are not eligible for the election in line D (Net section 1256 contracts loss election). As a result, for a partnership return the amount on line 5 of Form 6781 is passed through to partners (through the Code C component of Schedule K, line 11), and the amounts on lines 6 through 9 are zero.
- Posting of results to Schedule D, shown on the last screen of our Form 6781, relate to line numbers on Schedule D (Form 1065), not Schedule D (Form 1040).

Otherwise, details for Form 6781 in Chapter 2 of the main *Tax Forms Guide 2010 Edition* apply.

**Form 7004\*\* / Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns**

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of the Partnership Edition.

**Purpose.** This form is used to apply for an *automatic 5-month extension of time to file a partnership return* as well estate and trust returns. It is also used to apply for an automatic 6-month extension for other entities, but the form built into the software is restricted to use for partnership returns. (The IRS no longer provides an extension form specifically designed for partnership returns alone. As a result, not all lines on this form apply to partnerships.) *Form 7004 is a stand-alone form that you must file alone, not with the return, by the regular due date of the return.* It is therefore accessible only from the Forms Menu, not through the Road Map.

**When and where to file.** To apply for the extension, you must file this form with the IRS by the regular due date of the return or, if line 4, below, applies, 2 months after that date. In either case, the extension will allow you to file 5 months after the regular due date of the return. The address to which you must send this form is shown in the IRS instructions for Form 7004, but it is only a slight modification from the address we show in Table PAR-2 (on page PAR-6 of this manual). If the principal business is located in a foreign country or U.S. possession, the address is the same as that in Table PAR-2. For all other partnerships, the address differs only in the last 4 digits of the ZIP code, with 0011 replaced by 0045.

**Name and address.** *(auto-calc)* The name and address for this form does not appear on the screen, but is taken from your entries on Form 1065, page 1, for the official printout of Form 7004.

**1 a Form code for the return that this application is for.** *(auto-calc)* Always 09 for a Form 1065 return. (The IRS provides a table of form codes in Parts I and II of the official Form 7004.)

**2 Is the organization a foreign corporation that does not have an office or place of business in the United States?** *(auto-calc)* This question applies only to corporations, so the answer is No for this partnership return.

**3 Is the organization a corporation and the common parent of a group that intends to file a consolidated return?** *(auto-calc)* This question also applies only to corporations, so the answer is No for this partnership return.

**4 Is the organization a corporation or partnership that qualifies under Regulations section 1.6081-5?** Partnerships that keep their records and books outside the United States and Puerto Rico qualify under regulations section 1.6081-5 to file their return two months after the regular filing due date without penalty for late filing or late payment. In this case, Form 7004 is not

required if the return is filed within two months of the regular due date, but you should attach a statement to the return stating the partnership's qualification. However, if the partnership plans to file after the 2-month grace period, it must file Form 7004 with a Yes answer for this line, and this form will be taken as an application for an additional 3 months to file. The due date for the extension return will then be the same as that for those who do not qualify for the 2-month grace period.

**5a Application is for calendar year** \_\_\_. *(auto-calc)* If you entered fiscal year beginning and ending dates on our Control Form, this entry will be zero and the next two lines will have entries. Otherwise, a calendar year return is assumed and the tax year shown on the Control Form appears here.

**or other tax year beginning.** *(auto-calc)* Taken from your entry for "Fiscal year beginning" on our Control Form.

**and ending.** *(auto-calc)* Taken from your entry for "Fiscal year ending" on our Control Form.

**5b Short tax year. Identify the reason.** If the tax year is less than 12 months, you must answer Yes to one of the following questions to explain why.

**Initial return.** *(auto-calc)* Taken from your answer at line G(1) of Form 1065, page 1.

**Final return.** *(auto-calc)* Taken from your answer at line G(2) of Form 1065, page 1.

**Change in accounting period.** The rules for changing the accounting period are strict. You will have to get IRS approval to change the accounting period unless specific conditions are met. See IRS Pub. 538 (*Accounting Periods and Methods*) for more information.

**Consolidated return to be filed.** Answer Yes if a combined return will be filed.

**REMAINDER OF FORM NOT RELEVANT TO PARTNERSHIPS.** Except for the extra line below, the remainder of the form applies only to corporations and other entities that pay tax. Therefore, lines 5 through 8 will be zero for this partnership return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.



## Form 8283\*\* / Noncash Charitable Contributions

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of the Partnership Edition.

**Purpose.** This form is used to report information that the IRS requires when your deduction for all noncash gifts exceeds \$500. The form is not computational, and has no results to be posted elsewhere. Rather, it is a form to help the IRS in auditing noncash transactions and assessing the validity of claims for charitable deductions. If you have questions about what is deductible and how much detail you should provide on this form, see IRS Pub. 526 (Charitable Contributions), IRS Pub. 561 (Determining the Value of Donated Property), and the IRS instructions for Form 8283. *Form 8283 is accessible through the Road Map at the special access line that follows line 13a of Schedule K.*

**Refer to main Tax Forms Guide for details.** Form 8283 for partnerships is identical to the Form 8283 that is built into all versions of our Form 1040 software. As a result, details for Form 8283 in Chapter 2 of the main Tax Forms Guide 2010 Edition apply.

## Form 8586\* / Low-Income Housing Credit

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to claim credit for placing in service a new qualified low-income housing building. The credit is claimed over a 10-year period, amounting to as much as 70% of the building's qualified basis over that time. (in current dollars). Form 8586 is accessible through the Road Map at all parts of lines 15a and 15b of Schedule K (Form 1065, Page 4).

**Recapture.** You may have to pay a recapture tax in the future if, within 15 years of the date placed in service, your ownership in the building changes, the basis of the building decreases, or the building fails to meet the minimum set-aside requirements. Recapture is reported on Form 8611, which is also built into the software at the Premium Level.

**Section 42(j)(5) rules apply? (*auto-calc*)** Answered Yes only if Form 1065 Page 1, line I, is 35 or more and you answered No to "Elect out of 42(j)(5)" below that line. If Yes, the credits you enter on lines 3 and 10 of Form 8586 are reflected in line 15a of Schedule K. Otherwise, they are reflected in line 15b of Schedule K. (A partnership is generally treated under section 42(j)(5) if it has 35 or more partners, where a husband and wife who are partners are together treated as one partner. However, a partnership that exercised a special election within a short period after the enactment of section 42(j)(5) late in 1988 is not treated under section 42(j)(5).)

**PART I, BUILDINGS PLACED IN SERVICE BEFORE 2008.** The full credit is reported on this form before applying any limitations. The full credit is passed through to partners via Schedule K-1, and partners report the credit on their own Form 8586 and/or Form 3800. No tax limitations are applied at the partnership level. Buildings placed in service on January 1, 2008 or later are reported in Part II, not here, for more favorable treatment on each partner's own Form 8586.

**1 Number of Forms 8609-A attached.** If you use lines 1 through 3 you must attach copies of the associated Form 8609-A for each building. You must have a Form 8609 signed by an authorized housing credit agency official, which you must keep with your records for 3 years after the 15-year compliance period ends. Enter here only the number of Forms 8609-A applicable to buildings placed in service before 2008. (Buildings reported here could have been placed in service as long as 10 years ago because the credit is generally taken over a 10-year period.)

**Itemize if multi-building projects.** If any Form 8609-A you counted in line 1 is for buildings that are part of a multiple building project, you must supply certain information in a supporting statement for this line (not line 1). For each multiple building project you must provide the name and address of the project and the total credit claimed for

the project. For each building within the project you must enter its name and address, building identification number (BIN), and the amount of credit allocated to the building.

**2 Has there been a decrease in the qualified basis of any buildings accounted for in line 1 since the close of the preceding tax year?** If Yes, you must enter the building identification numbers (BINs) of any such buildings on the following lines:

(i), (ii), (iii), (iv). Use these lines to supply the 9-digit BIN for up to four buildings. If you make an entry on any of these lines, the answer to line 2 is forced to be Yes.

**Itemize if 5 or more BINs.** If more than four buildings had a decreased basis, itemize this line to supply the BINs for the buildings.

**3 Current year credit from attached Form(s) 8609-A.** Enter here the sum of credit on all Form(s) 8609-A *completed for buildings placed in service before January 1, 2008*, which you must attach to the return. (A separate copy of Form 8609-A is prepared for each building, and the credit for that building is computed on that form.)

**4 Low-income housing credits from pass-through entities.** Enter here any low-income housing credit for buildings *placed in service before January 1, 2008*, from a pass-through entity (S corporation, partnership, estate, or trust). The appropriate amounts are shown as codes A and B in box 13 of Schedule K-1 (Form 1120S), and codes A and B in box 15 of Schedule K-1 (Form 1065). For Schedule K-1 (Form 1065-B), if a monetary entry appears in box 8, that amount applies only to buildings placed in service before 2008 and is reported here; otherwise, the amount for this line is identified in a supporting statement for box 8. For Schedule K-1 (Form 1041), the amount for this line is identified in a supporting statement for code C in box 13. *(You must enter here the combined credit from entities subject to section 42(j)(5) rules and entities not subject to those rules, so the sum of amounts identified as codes A and B on Schedules K-1 from partnership and S corporations is reported here. The part from entities subject to section 42(j)(5) alone is identified on the next line.)*

**Part of line 4 under section 42(j)(5).** You must enter here any amount on line 4 that is reported to you by a section 42(j)(5) partnership or S corporation. The appropriate amounts are shown as code A in box 13 of Schedule K-1 (Form 1120S), and code A in box 15 of Schedule K-1 (Form 1065). (A partnership is generally treated under section 42(j)(5) if it has 35 or more partners, where a husband and wife who are partners are together treated as one partner. However, a partnership that exercised a special election within a short period after the enactment of section 42(j)(5) late in 1988 is not treated under section 42(j)(5).)

**5 Add lines 3 and 4.** *(auto-calc)* Computed as indicated, this is the total credit for Part I before any passive activity or tax limitations are applied.

**Part of line 5 under section 42(j)(5).** *(auto-calc)* Computed as the amount you entered for "Part of line 4 under section 42(j)(5)" plus, if the partnership for this return is a section 42(j)(5) partnership, the full amount on line 5 less the full amount on line 4. (This partnership is identified as a section 42(j)(5) partnership by the answer to "Sec. 42(j)(5) rules apply?" at the top of screen 1 of Form 8586.)

Lines 6 and 7 are for estates and trusts only:

**6 Amount allocated to beneficiaries of the estate or trust.** *(auto-calc)* Always zero because it applies only to estates and trusts, not individuals.

**7 Estates and trusts. Subtract line 6 from line 5.** *(auto-calc)* Always zero because it applies only to estates and trusts, not individuals.

The amount on the line "Part of line 5 under section 42(j)(5)" is posted to the part of line 15a of Schedule K (Form 1065) labeled "from pre-2008 buildings," and is allocated to partners in box 15 of their Schedule K-1, identified as code A. The remainder of line 5 is posted to the part of line 15b of Schedule K (Form 1065) labeled "from pre-2008 buildings," and is allocated to partners in box 15 of their Schedule K-1, identified as code B. For partners who are individuals, these are amounts are reported on line 4 of each partner's Form 8586, and passed through to line 1d of of the partner's Form 3800. *If any of the credit is attributable to additions to qualified basis property placed in service before 1990, you must separately identify the amount attributable to that property, and the amount attributable to property placed in service after 1989, in a supporting statement for line 15a or 15b of each partner's Schedule K-1.* (You cannot add support for these lines at Schedule K because these are Road Map lines that access Form 8586.)

**PART II, BUILDINGS PLACED IN SERVICE AFTER 2007.** Credit is reported here for buildings placed in service after December 31, 2007. Credits passed through to partners from this part of the form are not subject to reductions by the tentative minimum tax like the credits in Part I. (No limitations are applied at the partnership level.) Buildings placed in service before January 1, 2008 are reported in Part I, not here, and are subject on Form 3800 to reduction by the tentative minimum tax.

**8 Number of Forms 8609-A attached.** If you use lines 8 through 10 you must attach copies of the associated Form 8609-A for each building. You must have a Form 8609 signed by an authorized housing credit agency official, which you must keep with your records for 3 years after the 15-year compliance period ends. Enter here only the number of Forms 8609-A applicable to buildings placed in service after December 31, 2007.

**Itemize if multi-building projects.** If any Form 8609-A you counted in line 8 is for buildings that are part of a multiple building project, you must supply certain information in a supporting statement for this

line (not line 8). For each multiple building project you must provide the name and address of the project and the total credit claimed for the project. For each building within the project you must enter its name and address, building identification number (BIN), and the amount of credit allocated to the building.

**9 Has there been a decrease in the qualified basis of any buildings accounted for in line 8 since the close of the preceding tax year?** If Yes, you must enter the building identification numbers (BINs) of any such buildings on the following lines:

**(i), (ii), (iii), (iv).** Use these lines to supply the 9-digit BIN for up to four buildings. If you make an entry on any of these lines, the answer to line 9 is forced to be Yes.

**Itemize if 5 or more BINs.** If more than four buildings had a decreased basis, itemize this line to supply the BINs for the buildings.

**10 Current year credit from attached Form(s) 8609-A.** Enter here the sum of credit on all Form(s) 8609-A completed for buildings placed in service after December 31, 2007, which you must attach to the return. (A separate copy of Form 8609-A is prepared for each building, and the credit for that building is computed on that form.)

**11 Low-income housing credits from pass-through entities.** Enter here any low-income housing credit for buildings placed in service after December 31, 2007, from a pass-through entity (S corporation, partnership, estate, or trust). The appropriate amounts are shown as codes C and D in box 13 of Schedule K-1 (Form 1120S), and codes C and D in box 15 of Schedule K-1 (Form 1065). For Schedule K-1 (Form 1065-B), the amount for this line is identified in a supporting statement for box 8. For Schedule K-1 (Form 1041), the amount for this line is identified in a supporting statement for code C in box 13. *(You must enter here the combined credit from entities subject to section 42(j)(5) rules and entities not subject to those rules, so the sum of amounts identified as codes A and B on Schedules K-1 from partnership and S corporations is reported here. The part from entities subject to section 42(j)(5) alone is identified on the next line.)*

**Part of line 11 under section 42(j)(5).** You must enter here any amount on line 11 that is reported to you by a section 42(j)(5) partnership or S corporation. The appropriate amounts are shown as code C in box 13 of Schedule K-1 (Form 1120S), and code C in box 15 of Schedule K-1 (Form 1065). (A partnership is generally treated under section 42(j)(5) if it has 35 or more partners, where a husband and wife who are partners are together treated as one partner. However, a partnership that exercised a special election within a short period after the enactment of section 42(j)(5) late in 1988 is not treated under section 42(j)(5).)

**12 Add lines 10 and 11.** *(auto-calc)* Computed as indicated, this is the total credit for Part II before any passive activity or tax limitations are applied.

**Part of line 12 under section 42(j)(5).** *(auto-calc)* Computed as the amount you entered for "Part of line 11 under section 42(j)(5)" plus, if the partnership for this return is a section 42(j)(5) partnership, the full amount on line 12 less the full amount on line 11. (This partnership is identified as a section 42(j)(5) partnership by the answer to "Sec. 42(j)(5) rules apply?" at the top of screen 1 of Form 8586.)

**13 through 20 do not apply to partnerships.** Although printed on an official Form 8586 with no entries, these lines are not shown on the screen for this partnership return. Lines 13 through 18 apply limitations that are applied at the partner level on each partner's own Form 8586. Lines 19 and 20 apply only to estates and trusts.

The amount on the line "Part of line 12 under section 42(j)(5)" is posted to the part of line 15a of Schedule K (Form 1065) labeled "from post-2007 buildings," and is allocated to partners in box 15 of their Schedule K-1, identified as code C. The remainder of line 12 is posted to the part of line 15b of Schedule K (Form 1065) labeled "from post-2007 buildings," and is allocated to partners in box 15 of their Schedule K-1, identified as code D. For partners who are individuals, these amounts are used in Part II of each partner's own Form 8586, where passive activity and tax liability limitations are applied, and the net result is posted to line 29d of Form 3800, where tax liability limitations are applied *without reduction by the tentative minimum tax.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8594\* / Asset Acquisition Statement Under Section 1060**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to satisfy a reporting requirement when there is a transfer of a group of assets that make up a trade or business and the purchaser's basis in such assets is determined wholly by the amount paid for the assets. In this context, a group of assets makes up a trade or business if goodwill or going concern value could attach to such assets. Form 8594 must be filed by both the purchaser and the seller with their returns for the year in which the sale occurred. It must also be filed in any subsequent year in which there is a change in the purchaser's cost of the assets or a change in the amount realized by the seller. Although Form 8594 is generally filed with the partnership return, it is not tied to any form in the return and does not affect any calculations. It is therefore accessible only from the Forms Menu and not through the Road Map.

**Refer to main Tax Forms Guide for details.** Form 8594 for partnerships is identical to the Form 8594 that is built into our Form 1040 software at the Premium Level. As a result, details for Form 8594 in Chapter 2 of the main Tax Forms Guide 2010 Edition apply.

### Form 8611\* / Recapture of Low-Income Housing Credit

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to figure a recapture tax for previously claimed low-income housing credit. The credit is subject to recapture when, within 15 years of the date placed in service, your ownership in the building changes, the basis of the building decreases, or the building fails to meet the minimum set-aside requirements. However, you can often avoid the current payment of the recapture tax by posting a bond through Form 8693. You must complete a separate Form 8611 for each building to which recapture applies, so five separate copies of Form 8611 are built into the software. All copies of Form 8586 are accessible through the Road Map at two credit recapture lines for line 20c of Schedule K: "8611 LowIncHsg.-42(j)(5)" and "8611 Low Income Housing-other."

**Information on Form 8609 required.** Much of the information that you must supply on Form 8611 is found on the approved Form 8609 (*Low-Income Housing Credit Allocation Certificate*) for the property and the annual Form 8609-A (*Annual Statement for Low-Income Housing Credit*).

**IDENTITY OF BUILDING.** You must complete a separate Form 8611 for each separate building subject to the recapture tax.

**A & B are taken from Form 1065.** These are the name and EIN of the partnership entered on Form 1065.

**C Address of building (as shown on Form 8609).** Enter the building's street address in 35 characters or less.

**City.** Enter the city or town in 25 characters or less.

**State.** Enter the 2-character state code.

**ZIP code.** Enter the ZIP code in the standard xxxxx-xxxx format.

**D Building identification number (BIN).** Enter the 9-character BIN for the building.

**E Date placed in service (as shown on Form 8609).** Enter the date shown on Form 8609.

**F If building is financed in whole or in part with tax-exempt bonds, furnish:**

(1) **Issuer's name.** Enter the name of the entity that issued the bond in 35 characters or less.

(2) **Date of issue.** The date of issue is generally the date of physical exchange of the bond for the purchase price. Enter the date in the standard xx/xx/xxxx format.

(3) **Name of issue.** Enter the name of the issue in 35 characters or less. If not named, enter any other identification of the bond issue.

(4) **CUSIP number.** Enter the 9-character CUSIP number for the bond. If more than one bond was issued for the property, use the CUSIP number of the bond with the latest maturity date.



**TENTATIVE RECAPTURE.** The recapture is computed here before taking into account prior disallowed amounts and interest on the recapture. If the recapture for the building to which this copy of Form 8611 applies was passed through to the partnership from a flow-through entity (such as another partnership), skip lines 1 through 7 and enter the recapture passed through to the partnership on line 8. (Note that the tentative recapture is passed on to partners, so the section for computing net recapture, lines 9 through 15 of Form 8611, is not used for a partnership return.)

**1 Enter total credits reported on Form 8586 in prior years for this building.** You must include the credits shown in Part I of all Forms 8586 that you previously filed for the property. These are the tentative credits before reduction by any tax liability limit.

**2 Credits included on line 1 attributable to additions to qualified basis.** (Supported by the Credit on Additions Worksheet, Figure PAR-10.) You must complete a separate supporting worksheet for each prior year for which line 7 of Form 8609-A (or its predecessor, Schedule A of Form 8606) was completed. The result on line i of all worksheets combined is posted here.

**Credit on Additions Worksheet.** (Figure PAR-10; supports line 2 of Form 8611) You must complete a separate worksheet for each prior year for which line 7 of Form 8609 Schedule A was completed. This worksheet is patterned after the IRS's Line 2 Worksheet in the IRS Instructions for Form 8611. ALL line numbers on this worksheet refer to Form 8609-A (or Schedule A of Form 8609 prior to 2005).

<b>CREDIT ON ADD'NS TO BASIS</b>	
Complete separate worksheet for each prior year with line 7 of Sch.A of 8609 completed.	
a	Amount on ln 10, Sch.A(8609) 0
b	Multiply a by 2..... 0
c	Amount on ln 11, Sch.A(8609) 0
d	Subtract c from b..... 0
From ln14, SchA(8609) instns:	
e	%(0-100) figured in Step 1. 0
f	Multiply d by e..... 0
g	Subtract f from d..... 0
Amount on ln 15, Sch.A(8609) 0	
Amount on ln 16, Sch.A(8609) 0	
h	Divide 16 by 15, Sch.A(8609) 0
i	Multiply g by h..... 0

**Figure PAR-10. Credit on Additions Worksheet**

- a. Amount from line 10. Enter line 10 of the applicable form.
- b. Multiply a by 2. (auto-calc) Computed as indicated.
- c. Amount from line 11. Enter line 11 of the applicable form.
- d. Subtract c from b. (auto-calc) Computed as indicated.
- e. Enter percentage (0 to 100%) figured in Step 1 of the instructions for line 14 of the applicable form. Be sure to enter the number as a percentage (which ranges from 0 to 100%) rather than a decimal (which ranges from 0 to 1.0). Enter zero if not applicable.
- f. Multiply d by e. (auto-calc) Computed as indicated.

**g. Subtract f from d.** *(auto-calc)* Computed as indicated.

**Amount from line 15.** Enter line 15 of the applicable form.

**Amount from line 16.** Enter line 16 of the applicable form.

**h. Divide line 16 by line 15.** *(auto-calc)* Computed as the ratio of the preceding two amounts. Although shown on the screen to only 2 decimal places, the result is carried to full accuracy when used to compute line i, below.

**i. Multiply g by h.** *(auto-calc)* Computed as indicated.

The result on line i is posted to line 2 of Form 8611 along with all other worksheets for line 2.

**3 Credits subject to recapture.** *(auto-calc)* Computed as line 1 less line 2.

**Year recapture event occurs.** Enter the year number when the recapture occurs, where 1 represents the first year in service, 2 the second year, etc. For example, if the bond was issued on July 1, 2001 and the recapture occurred on August 15, 2009, then the recapture occurred during the 9<sup>th</sup> year in service, so 9 would be entered here.

**% (0-100) that applies.** *(auto-calc)* The IRS-defined percentage is based on the recapture year in accordance with the table in the IRS instructions, expressed here as a percentage.

**4 Credit recapture percentage.** *(auto-calc)* Computed as the preceding percentage expressed in decimal form to 4 decimal places (1 more place than the minimum allowed by the IRS). (The IRS erroneously calls this a percentage, but it is really a ratio with 1.0 as the maximum.)

**5 Accelerated portion of credit.** *(auto-calc)* Computed as line 3 times line 4.

**% (0-100) decrease in qualified basis.** Enter the percentage decrease in qualified basis during the tax year. See IRS instructions for details on how to figure the entry for this line.

**6 Percentage decrease in qualified basis.** *(auto-calc)* Computed as the preceding percentage expressed in decimal form to 4 decimal places (1 more place than the minimum allowed by the IRS). (The IRS erroneously calls this a percentage, but it is really a ratio with 1.0 as the maximum.)

**Line 5 times line 6.** *(auto-calc)* Computed as indicated, this is the accelerated portion recaptured.

**Part for prior recapture.** If there was a prior recapture of accelerated credit on the building, you do not recapture that amount again as a result of the current reduction in basis. However, the computation of the amount to enter here can be involved. See the IRS instructions for details.

**7 Amount of accelerated portion recaptured.** *(auto-calc)* Computed as line 5 times line 6 less the preceding entry.

**8 Enter recapture amount from flow-through entity.** Enter here recapture reported to the partnership from a flow-through entity (another partnership, S corporation, estate, or trust). *(This line is not applica-*

*ble if you completed lines 1 through 7* because you are thereby indicating that the partnership for which this return is being prepared owns the building, not another entity.)

**Is line 8 from a section 42(j)(5) partnership?** Answer Yes only if the pass-through entity from which the amount on line 8 came is a Section 42(j)(5) partnership. Your answer here ensures that the amount on line 8 flows to the proper line on Schedule K, as indicated at the end of this form.

**9 through 15. *(auto-calc)*** Lines 9 through 15 are all computed as zero because they do not apply to partnership returns.

**Only Section 42(j)(5) partnerships complete lines 16 and 17.** Lines 16 and 17 are completed *only* for the Form 1065 return of a partnership with at least 35 partners, unless the partnership elects (or elected) not to be treated as a section 42(j)(5) partnership. See the lines below line I of Form 1065, page 1.

**Do section 42(j)(5) rules apply? *(auto-calc)*** Taken from the answer below line I of Form 1065, page 1. If No, lines 16 and 17 will always be zero.

**16 Enter interest on the line 7 recapture amount.** You must enter here not your actual interest but rather interest computed in accordance with IRS tables of interest factors and annual interest rates in effect for each year credit that is now recaptured was claimed. See IRS instructions for line 11 for the method of computing this interest (even though line 11 applies only to Form 1040 returns).

**17 Total recapture. *(auto-calc)*** Computed as the sum of lines 7 and 16.

**Allocation to Schedule K, line 20c.** The results of Form 8611 are allocated between two separate lines on Schedule K so that partners will have all the information they need to complete a Form 8611 for their own return:

**Recapture under section 42(j)(5). *(auto-calc)*** Computed as the sum of line 17 *plus*, if you answered "Yes" to the 42(j)(5) question, line 8. This result is posted to the part of Schedule K, line 20c, labeled "8611 LowIncHsg.-42(j)(5)."

**Other recapture. *(auto-calc)*** Computed as the sum of line 7, if this partnership is a section 42(j)(5) partnership, *plus*, if you answered "No" to the 42(j)(5) question, line 8. This result is posted to the part of Schedule K, line 20c, labeled "Low Income Hsg-other."

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 8822\* / Change of Address

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to report a change of address to the IRS at a time when you are not filing the return to which it applies. Accordingly, this form is not attached to any return, but is sent by itself to the IRS. (To change your address at the time you file you merely use the new address on your return.) Because of its stand-alone nature, Form 8822 is accessible only from the Forms Menu, and not through the Road Map.

**PART I, CHANGE YOUR HOME MAILING ADDRESS.** This part is used to change the home address for a Form 1040 return, and is therefore not relevant to this partnership return. Lines 1 through 7 of Form 8822 should therefore be left blank if you are filing the form for a partnership.

**PART II, CHANGE YOUR BUSINESS MAILING ADDRESS OR BUSINESS LOCATION.** This part is used to change the address for the partnership on a Form 1065 return. The employer IDN and new mailing address entries are automatic when you use the Form 1065 software.

**Check ALL boxes this change affects:**

- 8 Employment, excise, income, and other business returns?** Answer Yes if the address change affects U.S. business returns, such as Form 720, 940, 940-EZ, 941, 990, 1041, 1065, or 1120 returns.
- 9 Employee plan returns?** Answer Yes if the address change affects a U.S. employee plan return, such as Form 5500 or 5500-EZ returns.
- 10 Business location?** Answer Yes if the address change is a change in a business's physical location.

**If 8, 9, or 10 is "Yes":**

- 11a Business name.** Enter the business name in 35 characters or less.
- 11b Employer IDN.** *(auto-calc)* Taken from the IDN you entered on Form 1065, page 1.
- 12 Old mailing address.** Enter the former mailing address that the IRS has for the cited return(s).
- 13 New mailing address.** *(auto-calc)* Taken from the address you entered on Form 1065, page 1. (Although an entry for room or suite appears on Form 8822, that information should already be included in the street address entry on Form 1065, page 1.)
- 14 New business location.** Enter the new location of the business if you answered Yes to line 10.

**PART III, SIGNATURE.**

**Contact person's daytime phone number.** This is an optional entry to use if you want the IRS to contact anyone by phone if there are questions about the completed form.

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Form 8822

**Where to file Form 8822.** Before filing, a partner, officer, or other representative of the partnership must sign the printed graphic Form 8822. You must then send the signed form to the address in the IRS Instructions for Form 8822 (Rev. December 2008).

## Form 8824\* / Like-Kind Exchanges

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is principally used to report an exchange of business or investment property for property of a like kind. (It is also used to report certain conflict-of-interest sales in Part IV of the form.) Although part or all of the exchange may be currently tax-free, the basis in the new property is generally lowered so that the exchange is really a form of tax deferral rather than zero tax. You must use a separate Form 8824 for each separate exchange, and five copies of the form are available in the software. For *both* Form 1040 and Form 1065 software, Form 8824 is *accessible through the Road Map at various lines on both Schedule D and Form 4797*.

**CAUTION: Like-kind exchanges subject to many rules.** It is important that you structure the exchange in a way that will satisfy the IRS under the current regulations, because the regulations are quite involved and have changed many times over the years. A careful reading of the IRS Form 8824 Instructions and the examples in IRS Pub. 544 (Sales and Other Dispositions of Assets) are therefore critical for both structuring the exchange and completing Form 8824.

**Refer to main Tax Forms Guide for details.** Form 8824 for partnerships is identical to the Form 8824 that is built into our Form 1040 software at the Premium Level. Only the lines to which results post on Schedule D differ, since Form 1065 returns use a different Schedule D from that for Form 1040 returns. As a result, details for Form 8824 in Chapter 2 of the main Tax Forms Guide 2010 Edition apply.

## Form 8825 / Rental Real Estate

**Purpose.** This form is used to summarize all rental real estate activities, which are subject to special restrictions on the partners. It is accessible through the Road Map at line 2 of Schedule K (Form 1065, Page 4), to which the result on line 21 of this form is posted. This amount is distributed from line 2 of Schedule K to line 2 of the individual partners' Schedules K-1.

**CAUTION:** You must *create a Form 8825 for the return if Form 4797 includes any ordinary income or loss from the disposition of rental real estate.* As explained in the earlier details for Form 4797, that part of the Form 4797 must be reported on Form 8825, which is done automatically once you create a Form 8825 for the return. If you fail to create Form 8825 to hold this amount, it will not be properly reported and distributed to partners' Schedules K-1.

**Information on Properties.** All information on rental real estate activities should be reported on the worksheets that support the following lines.

**1 Kind and location of each.** This label appears on the screen only for orientation, and no entry is shown here. The descriptions of kind and location are entered on the supporting worksheets, not here.

**2 Gross rents.** *(Supported by the Rental Real Estate Worksheet, Figures PAR-11 and PAR-12.)* The sum of income from all supporting worksheets appears here.

**3 through 13.** The individual labels for lines 3 through 13 appear on the screen only for orientation, and no amounts are shown here. All amounts are entered on the supporting worksheets, not here.

**Expenses on 3 through 13.** *(Supported by the Rental Real Estate Worksheet, Figures PAR-11 and PAR-12.)* Supported by the same set of worksheets as line 2, the total of all expenses reported on the worksheets appears here.

**14 Depreciation from Form 4562.** *(Road Map line, supported by Form 4562.)* A separate copy of Form 4562 is reserved to support this line. After you complete the form, total depreciation on line 22 of Form 4562 (which excludes section 179 expense) is posted here. (Section 179 expense is posted to line 12 of Schedule K, not here.) *CAUTION: You must allocate the total depreciation that appears on this line among the Rental Real Estate Worksheets. The sum of line 14 for all worksheets combined must match the total that appears here.*

**15a through 15c, Describe other.** Enter in these three lines descriptions for any three categories of expense you want to report that are not covered in the predefined IRS categories of lines 3 through 14 of the Rental Real Estate Worksheets (detailed next). The entries you make here, which are limited to 15 characters each, will appear on all supporting worksheets for this section, and will appropriately appear on the final printout of Form 8825.

**15 Other (list).** *(Supported by the Rental Real Estate Worksheet, Figures PAR-11 and PAR-12.)* The expenses for the categories defined above, are totaled here from your entries on lines 15a, 15b, and 15c on screen 2 of all worksheets.

**16 Total expenses.** *(auto-calc)* Computed as the sum of expenses on 3 through 13, depreciation on line 14, and other expenses on line 15.

The above lines are all supported by the following worksheet.

**Rental Real Estate Worksheet, Figures PAR-11 and PAR-12.** *(Supports lines 1 through 18 of Form 8825.)* The worksheet provides a custom format for detailing rental activities:

**1 Kind and location.** 3 lines of 25 characters each are provided to describe the property and its location.

**2 Gross rents.** Enter gross rental income.

**3 through 13, Scheduled expenses.** The remaining data entry lines for the worksheet are intended for expenses that fall into categories defined by the IRS for rental property. *Note that expenses may be subject to special limitations when any of the property is used by a partner for personal use. Also note that investment interest expense should not be claimed here* but rather at line 14 of Schedule K, where it is passed to each partner's Schedule K-1.

```

RENTAL REAL ESTATE-Scn1of2
 1 Kind of property
   Street address..
   City,state,ZIP..
 2 Gross rents..... 0
 3 Advertising..... 00
 4 Auto and travel..... 00
 5 Cleaning & maintenance... 00
 6 Commissions..... 00
 7 Insurance..... 00
 8 Legal & other pro fees... 00
 9 Interest..... 00
10 Repairs..... 0
 [Press PgDn or > for lns11-16]
    
```

Figure PAR-11. Rental Real Estate-Screen 1

```

RENTAL REAL ESTATE-Scn2of2
11 Taxes..... 0
12 Utilities..... 00
13 wages and salaries..... 00
   Expense subtotal (3 to 13) 00
14 Depreciation (seeForm4562) 00
15a ..... 00
15 ..... 00
15 ..... 00
15 Total other expenses..... 00
16 Total expenses..... 00
   Net income for property 0
 [Press PgUp or < for lns 1-10]
    
```

Figure PAR-12. Rental Real Estate-Screen 2

**Expense subtotal (lines 3 to 13).** *(auto-calc)* The sum of lines 3 through 13, this total is posted to the corresponding line on Form 8825.

**14 Depreciation (on Form 4562).** Enter the part of line 14 on Form 8825 that applies to this property alone. (Form 4562 is accessed from line 14 of Form 8825, not this worksheet.)



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Form 8825

**15 Total other expenses.** Three lines (15a, 15b, 15c) are provided here using the categories you provided on Form 8825 itself.

**16 Total expenses.** *(auto-calc)* Computed as the sum of lines 3 through 15.

**Net income for property.** *(auto-calc)* Computed as line 2 less line 16. When you exit the worksheets, amounts (other than line 14) are separately summed from all worksheets and posted to the corresponding lines on Form 8825.

**17 Total gross rents.** *(auto-calc)* The sum of line 2 of all worksheets.

**18 Total expenses.** *(auto-calc)* The sum of line 16 of all worksheets.

**Net income above.** *(auto-calc)* Computed as line 17 less line 18.

**Net income on worksheets.** *(auto-calc)* Computed as the net income entered on all worksheets combined, computed as line 2 less line 16 of all worksheets.

**ERROR in line 14 of worksheets.** *(auto-calc)* Since lines 2 through 13 and 15 come directly from the worksheets, the only chance for error is an improper allocation of the Form 4562 amount appearing on line 14 among all worksheets. An error here does not affect the results on the return as long as Form 4562 contains all appropriate depreciation. But the detailed printouts for each property will not agree with the calculated totals unless you take care to make the proper entries on each worksheet so that this error is zero.

**19 Net gain or loss from Form 4797, Part II, line 17, from rental real estate.** *(Road Map line, supported by Form 4797.)* The amounts you identified below line 17 of our Form 4797 as the part of line 17 for the disposition of rental real estate is posted here automatically.

**20 Rental real estate activities of other partnerships and fiduciaries.** If this partnership owns an interest in any other partnerships or fiduciaries (estates and trusts), this partnership's share must be reported here.

**20a Net from real estate activities of other partnerships and fiduciaries.** *(Supported by the Rental Real Estate -- Partnerships / Fiduciaries Worksheet, Figure PAR-13.)* If all the rental real estate activities stem from the same entity, you do not have to use the worksheet that support this line; you can make all entries directly on Form 8825 on this and the next two following lines instead. But if more than one entity is involved, you **MUST** use the worksheets accessed here to enter the required information for all partnerships; the total rental income or loss on the worksheets will appear here automatically.

**20b(1) Name.** *(Use this line ONLY if you do NOT use the Rental Real Estate -- Partnerships / Fiduciaries Worksheet.)* Enter the name of the other partnership, estate, or trust.

**20b(2) Employer identification number.** *(Use this line ONLY if you do NOT use the Rental Real Estate -- Partnerships / Fiduciaries Worksheet.)* Enter the IDN of the other partnership, estate, or trust.

**21 Net income or loss from rental real estate activities.** *(auto-calc)* Computed as the sum of lines 17, 19, and 20a, less line 18. This result is posted to line 2 of Schedule K.

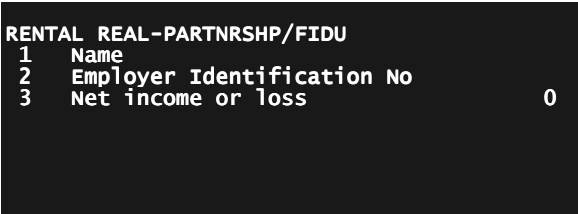
**Rental Real Estate-Partnerships/Fiduciaries Worksheet, Figure PAR-13.** *(Supports line 20a of Form 8825.)* This worksheet is used to report income from rental real estate activities of other partnerships or fiduciaries (estates and trusts) with the detail that the IRS requires. You should report only amounts reported by the entity for a tax year ending within the tax year of THIS partnership. Note that only rental real estate income is reported here. Other income shown on the Schedule K-1 from the other partnerships and fiduciaries is reported elsewhere in the partnership return.

**1 Name.** Enter the name of the entity here in 25 characters or less.

**2 Employer Identification No.** Enter the entity's EIN in the standard xx-xxxxxx format.

**3 Net income or loss.** Enter the net income or loss reported to THIS partnership for rental real estate activities. The proper amounts are shown on the Schedule K-1 of Form 1065 from the other partnerships and the Schedule K-1 of Form 1041 from the fiduciaries.

The sum of line 3 for all worksheets is posted to line 20a when you return to Form 8825. *TIP: You do not need to use this worksheet if there is only one entity to report, since you can enter the information directly on Form 8825 for one entity.*



RENTAL REAL-PARTNRSHP/FIDU	
1	Name
2	Employer Identification No
3	Net income or loss
	0

**Figure PAR-13. Rental Real Estate-Partnerships/Fiduciaries**

**Form 8846\* / Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to claim a credit for social security and Medicare tax paid on tips on behalf of food service employees, but only to the extent that the tips are not used to meet Federal minimum wage requirements. Although the form is twelve lines long, only the first six lines apply to partnerships because passive activity limitations and carryovers are handled on each partner's own tax return, not on the partnership return. Form 8846 is accessible through the Road Map at the credit line for line 15f of Schedule K labeled "8846 Employer ss/Med tips."

**For the food service industry ONLY.** This special credit is only for food or beverage establishments where tipping of employees is customary for delivering or serving food or beverage. Furthermore, only those tips for which you paid or incurred social security and Medicare tax qualify.

**PART I. CURRENT YEAR CREDIT.** The full credit is computed in this part based on qualifying tips, before applying any limitations.

**1 Tips received by employees on which you paid or incurred employer social security and Medicare taxes during the tax year.** Enter all qualifying tips for the tax year for which you were liable for social security and Medicare taxes.

**2 Tips not subject to the credit provisions.** If you pay any tipped employees less than \$5.15 per hour (which was the federal minimum wage from September 1, 1997 through July 23, 2007), the portion of those tips used to reach the minimum wage is not eligible for the credit. You must determine the amount of ineligible tips separately for each individual as the amount by which the total hours worked times the minimum wage rate exceeds the actual wages paid (excluding tips), but no more than the amount of tips received by the employee.

**3 Creditable tips.** *(auto-calc)* Computed as line 1 less line 2.

**If you had any tipped employees whose wages (including tips) exceeded \$106,800, enter the part of line 3 subject ONLY to Medicare tax in a supporting statement that explains your computation.** If the sum of wages and tips for any employee exceeds the maximum amount subject to social security tax (\$106,800 for calendar year 2008), you must figure for each such employee the amount of tips that make the total of wages plus tips exceed this maximum. Enter in a supporting statement for this line this excess for each employee in the amount column and show how you figured the amount in the text column. If you make an entry here, a check box at line 4 is

checked on the official printout and the calculation for line 4 is modified.

**4 Multiply line 3 by 7.65%. *(auto-calc)*** Normally computed as indicated. However, if you have an entry on the preceding line, only the amount on line 3 less the preceding amount is multiplied by 7.65%, then the amount on the preceding line times 1.45% is added to the result. ***CAUTION:*** *The deduction on your return for social security and Medicare taxes paid must exclude this amount. For example, if you normally report those taxes on line 9 of Form 1065, page 1, you must exclude the amount on line 4 of Form 8846 from your entry for Form 1065, line 9.*

**5 Form 8846 credits from pass-through entities.** Enter any Form 8846 credits from a pass-through entity shown as code N in box 13 of Schedule K-1 (Form 1120S) from an S corporation or code N in box 15 of Schedule K-1 (Form 1065) from another partnership.

**6 CURRENT YEAR CREDIT. *(auto-calc)*** Computed as the sum of lines 4 and 5, this is the credit before any limitations are applied.

The total credit on line 6 is posted to the component of line 15f of Schedule K labeled "8846 Employer ss/Med tips." It is then allocated among partners in box 15 of their Schedules K-1, identified as code N.

**REMAINDER OF FORM NOT RELEVANT TO PARTNERSHIPS.** The remainder of the form does not apply to partnerships because the full credit on line 6 is passed through to partners, and any carryovers are handled on each partner's Form 8846. Lines 7 through 12 are therefore always zero for this partnership return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8861\* / Welfare-to-Work Credit

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of the Partnership Edition.

**Purpose.** This form is used to claim credit for wages you paid to long-term family assistance recipients who started work for you before January 1, 2007. Credit for those who started work for you on or after January 1, 2007 are claimed on Form 5884 (*Work Opportunity Credit*) instead (built into the Premium Level software). Form 8861 is accessible through the Road Map at the credit line for line 15f of Schedule K labeled "8861 Welfare-to-work."

**Certification required.** In order to claim this credit you must have certification for each employee from the state employment security agency (SESA). You either must have received the certification for a particular employee by the employee's first day of work or must complete a Form 8850 by that date (signed by you and the employee) and file it by the 21<sup>st</sup> day after the employee starts work. You can claim the credit only if the request on Form 8850 is approved. If approved and later revoked, you can still generally claim the credit for the days before the revocation. See the IRS Instructions for Form 5884 for details on this and other requirements for this credit.

**CAUTION:** Only for employees hired before January 1, 2007. Although this credit for long-term family assistance recipients is still available for new employees, it is no longer claimed on Form 8861 for employees hired after December 31, 2006. Instead, the credit for new employees has been merged with the Work Opportunity Credit on Form 5884, so you must use Form 5884, not this form, for long-term family assistance recipients hired after December 31, 2006. First-year wages for such employees are included in lines 1a and 1b of Form 5884, and second-year wages are reported on the new line 1c of Form 5884.

**CURRENT YEAR CREDIT.** The full credit is computed in this part based on qualifying wages, before applying any limitations.

**1 Total qualified first- or second-year wages paid or incurred during the tax year for services of employees who are certified as long-term family assistance recipients:**

**a Qualified first-year wages.** This line is not applicable to tax year 2009 returns because employees with hire dates before January 1, 2007 can have only third-year wages in 2009.

**X 35%...1a. (auto-calc)** Computed as the wage on line a times 0.35, the result will be zero for tax year 2009 returns.

**b Qualified second-year wages.** Employees who you retain in your employment for a second year qualify you for a higher credit. *Include only employees who were hired before January 1, 2007.*

**X 50%...1b. (auto-calc)** Computed as the wages on line b times 0.50.

**2 Add lines 1a and 1b. (auto-calc)** Computed as indicated. **CAUTION:** *You must generally reduce your deduction for wages and salaries*

(usually, using the line above line 9 of our Form 1065, page 1) by the amount on line 2. However, see the IRS Instructions for Form 8861 for exceptions.

**ITEMIZE to explain exception.** If an exception applies to reporting reduced wages, itemize here to explain why you did not reduce your deduction by the full amount on line 2.

**Special instructions for line 2 if a member of a controlled group.** If claiming the credit as a member of a controlled group, you must compute line 2 as your prorated share of the credit. The credit must first be computed for the group as a whole, reflecting the calculations for lines 1a and 1b. Then each group member must complete a Form 5884 for his or her own return by skipping lines 1a and 1b and entering on line 2 a prorated portion of the group total. Prorating of line 2 among group members must be in direct proportion to the amount of qualifying wages contributed by each member. To accomplish this with the software while satisfying the IRS reporting requirements, press the Override Key (F8) to access line 2, then, in a supporting statement for line 2, explain how the group credit was divided among the members, entering only *your* amount in the amount column. Your explanation will then be printed with the return and cross-referenced on the official printout.

**3 Welfare-to-Work Credits from partnerships, S corporations, cooperatives, estates, and trusts.** Enter any Welfare-to-Work Credit from pass-through entities, identified in box 13 of Schedule K-1 (Form 1120S), box 15 of Schedule K-1 (Form 1065), box 13 of Schedule K-1 (Form 1041), or a written statement from a cooperative.

**4 CURRENT YEAR CREDIT.** *(auto-calc)* Computed as the sum of lines 2 and 3, this is the credit before any limitations are applied.

Lines 5 and 6 are for cooperatives, estates, and trusts only:

**5 Amount allocated to the patrons of the cooperative or the beneficiaries of the estate or trust..** *(auto-calc)* Always zero because this line does not apply to partnerships.

**6 Cooperatives, estates, and trusts, subtract line 5 from line 4.** *(auto-calc)* Always zero because this line does not apply to partnerships.

The amount on line 4 is posted to the component of line 15f of Schedule K labeled "8861 Welfare-to-work." It is then distributed among partners in box 15 of their Schedules K-1, identifying the credit (along with other credits for which no code has been assigned by the IRS) using general code P.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8910\*\* / Alternative Motor Vehicle Credit**

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of the Partnership Edition.

**Purpose.** This form is used to claim a credit for special types of vehicles that are an alternative to the standard internal combustion engine. Four categories of vehicles are covered:

- **advanced lean burn technology vehicles** – using direct injection and using more air than necessary for complete combustion. *Credit for this type of vehicle is subject to phaseout when the manufacturer's sales exceed 60,000 units.*
- **qualified hybrid vehicles** – using both internal combustion and a rechargeable energy system (such as batteries). *For hybrids weighing 8,500 pounds or less, the credit for this type of vehicle is subject to phaseout when the manufacturer's sales exceed 60,000 units.*
- **qualified alternative fuel vehicles** – using compressed natural gas, Liquefied natural gas, liquefied petroleum gas, hydrogen, methanol (at least 85%), or a combination.
- **qualified fuel cell vehicles** – using cells that convert chemical energy into electricity by combining oxygen with hydrogen fuel.
- **qualified plug-in electric drive motor vehicles** – converted to be significantly propelled by an electric motor rechargeable from an external source. *The maximum credit is generally the lesser of \$4,000 or 10% of the cost of conversion.*

Although the form is designed for a credit for personal use as well as business or investment use, *only the business or investment use of the vehicle qualifies for a credit on a partnership return. Form 8910 is accessible through the Road Map at the component of line 15f of Schedule K labeled "8910 Alternative vehicle credit."*

**Certification is mandatory and can change.** The requirements for certification are complex and technical, so *the IRS allows you to rely on the manufacturer's certification* that the specific model year, make, and model qualifies for the credit. However, the IRS can withdraw certification at any time! The IRS adopts the policy that if you purchased the vehicle *before* the IRS announced the withdrawal of certification, you are still allowed the credit, even if you did not place the vehicle in service until after the announcement. However, it is your responsibility to keep up-to-date with IRS announcements. Just three Internal Revenue Bulletins are cited in the IRS instructions:

**IRB 2006-6:** Notice 2006-9, which starts on page 413 of this document (downloaded at [www.irs.gov/pub/irs-irbs/irb06-06.pdf](http://www.irs.gov/pub/irs-irbs/irb06-06.pdf)), concerns hybrids weighing 8,500 pounds or less and advanced lean burn technology vehicles.

**IRB 2006-26:** Notice 2006-54, which starts on page 1180 of this document (downloaded at [www.irs.gov/pub/irs-irbs/irb06-26.pdf](http://www.irs.gov/pub/irs-irbs/irb06-26.pdf)), concerns alternative fuel vehicles.

**IRB 2007-23:** Notice 2007-46, which starts on page 1342 of this document (downloaded at [www.irs.gov/pub/irs-irbs/irb07-23.pdf](http://www.irs.gov/pub/irs-irbs/irb07-23.pdf)), concerns hybrids weighing more than 8,500 pounds).

**IRB 2008-12:** Notice 2008-33, which starts on page 642 of this document (downloaded at [www.irs.gov/pub/irs-irbs/irb08-12.pdf](http://www.irs.gov/pub/irs-irbs/irb08-12.pdf)), concerns hybrids weighing more than 8,500 pounds).

To keep up-to-date on later bulletins, visit the IRS website at [www.irs.gov](http://www.irs.gov) and enter the word "hybrid" in the Search box.

**PART I, TENTATIVE CREDIT.** Qualifying vehicles are identified in this part and the maximum credit before limitation is computed. *All information for this part of the form is entered on supporting worksheets*, one for each qualifying vehicle. To qualify for the credit, the vehicle must be certified by the IRS as eligible for this credit, and must meet the following conditions:

- The vehicle is owned by the partnership.
- The vehicle was placed in service during the tax year of the partnership.
- The original use of the vehicle began with the partnership.
- The partnership acquired the vehicle for its own use or lease, and not for resale.

Even though the supporting worksheets are accessed from Part I, below, all amounts for lines 1 through 10 in Part I, lines 11 and 12 in Part II, and line 16 in Part III are shown on these worksheets.

**Vehicles claimed (itemize).** *(Supported by the Alternative Vehicle Information Worksheet, Figure PAR-14.)* You must complete a separate worksheet for each qualifying vehicle, fully identifying the vehicle and entering the latest IRS amounts for maximum credit and phaseout percentage for that vehicle. When you return from the worksheets, the number of vehicles you identified is shown on this line. (Because all information for the credit is contained on the worksheets, no credit will be computed on Form 8910 without the worksheets being present and attached.)

**1 - 10:** These lines do not appear on the screen here because they relate to the individual vehicles. Accordingly, they appear only in the worksheets and on the official printouts.



**Alternative Vehicle Info Worksheet.** (Figure

PAR-14; supports entire Form 8910) You must complete a separate worksheet for each qualifying vehicle.

**Fiscal year start (YEAR.MO).**

(auto-calc)

Taken from our Control Form, this is the year and month of the start of the fiscal. The vehicle must have been placed in service within 12 months of this date.

1. **Year, make, and model of vehicle.** This entry is split into 3 parts in order to fit on the printed form.

**Year.** Enter the manufacturer's model year as a 4-digit number.

**Make.** Enter the make in 13 characters or less. You can include part of the model here, as noted below, but *the make (such as Chevrolet, Ford, Honda, Toyota, etc.) must be the first word of this entry* for the proper automation of the worksheet.

**Model.** Enter the model in 13 characters or less. If you need more room, you can start your entry on the preceding line. For example, for a Honda Civic Hybrid CVT you would enter Honda Civic for the make and Hybrid CVT for the model. See IRS instructions for Form 8910 for the make and model information that you must supply.

**TYPE OF VEHICLE.** Your entries here help determine the proper phaseout percentage for the computation of line 3.

<b>ALTERNATIVE VEHICLE INFO</b>		
	Tax year on Form 1040	2009
1	Model year.....	
	Make.....	
	Model.....	
	<b>TYPE OF VEHICLE:</b>	
	Adv lean burn technology?	No
	Hybrid 8,500 lbs or less?	No
	Hybrid over 8,500 lbs...?	No
	Qlfd. alternative fuel..?	No
	Qlfd. fuel cell.....?	No
	Qlfd. for Form 8936 cred?	No
	If Yes, no 8910 credit!	
	Date purchased.....	
2	Date placed in service....	
	Credit before phaseout..	0
	(see IRS tables or ctf)	
	Phaseout percentage....	0
3	CREDIT ALLOWABLE.....	0
	Press PageDown for plug-in electric drive motor cred.	
-----		
	For qlfd. plug-in electric drive motor vehicle, enter:	
	Cost of conversion.....	0
4	Cost (for allowed dates)..	0
5	Sec. 179 claimed for cost.	0
6	Subtract line 5 from ln 4.	0
7	Multiply line 6 by 10%...	0
8	Maximum credit allowable..	4,000.
9	Smaller of line 7 or ln 8.	0
10	TENTATIVE CREDIT. Add 3&9	0
11	Business/investment use %.	0
12	Multiply line 10 by ln 11.	0
13-15	appear on 8910 form only	
16	(not for partnerships)	0
	VEHICLE COUNTED FOR 8910..	No

Figure PAR-14. Alternative Vehicle Information Worksheet

**Advanced lean burn technology vehicle.** Answer Yes only if propelled by a direct injection internal combustion engine that uses more air than necessary for complete combustion. This type of vehicle is subject to phaseout as the manufacturer sales rise above certain thresholds.

**Hybrid vehicle weighing 8,500 pounds or less.** Answer Yes only if propelled by an engine using consumable fuel and a rechargeable energy source, with a weight not exceeded 8,500 pounds. This type of vehicle is also subject to phaseout as the manufacturer sales rise above certain thresholds, but hybrid vehicles weighing more than 8,500 pounds are not.

**Hybrid vehicle weighing more than 8,500 pounds.** Like the preceding vehicle, but for a different weight class.

**Qualified alternative fuel vehicle.** This type of vehicle is not subject to phaseout, so the phaseout percentage is always 100% for this type of vehicle.

**Qualified fuel cell vehicle.** This type of vehicle is not subject to phaseout, so the phaseout percentage is always 100% for this type of vehicle.

**Qualified plug-in electric drive vehicle.** This type of vehicle is not subject to phaseout, so the phaseout percentage is always 100% for this type of vehicle.

**Qualified for Form 8936 credit?** If Yes, you are not allowed any credit for this vehicle on Form 8910, so the credit at line 3 is always zero.

**Date purchased.** Enter the date the partnership purchased the vehicle using the standard MM/DD/YYYY format. (*The partnership must have purchased the vehicle to qualify for the credit. Leased vehicles are not eligible.*) This entry helps determine the proper phaseout percentage for line 3. Although the vehicle must have been first placed in service during the tax year, the purchase can be made before that time. *This entry is critical* because the phaseout percentage depends on the purchase date, not the date placed in service.

- Date placed in service.** Enter date the vehicle was first placed in service using the standard MM/DD/YYYY format. No credit will result if the date is before or after the tax year for this return.

**Credit before phaseout.** The maximum credit amount varies by the year, make, and model of the vehicle, and is set periodically by the IRS based on a complex law. Amounts allowable for 2009 through 2010 model years are shown in the IRS's *2009 Instructions for Form 8910* for advanced lean burn technology and light hybrid vehicles. However, *you can generally rely on the manufacturer's certification on the purchase date for the amount to enter.* (If your vehicle is not shown in the IRS instructions, you should go to the IRS's website using the relevant web address cited in the IRS instructions.)

**Phaseout percentage.** *(auto-calc)* If you identified the vehicle as an advanced lean burn technology vehicle or a hybrid weighing no more than 8,500 pounds, the credit is subject to phaseout. The law was inexplicably written such that the credit drops precipitously as the number of qualifying vehicles produced by the manufacturer exceeds 60,000. Before that number is reached there is no phaseout, and the proper entry here is 100. But once 60,000 units is exceeded, only 50% of the maximum credit is allowed for the first 2 quarters after that event, 25% for the next 2 quarters, and 0% thereafter. Vehicle makes that have reached sales that subject them to phaseout are Toyota, Lexus, Honda, Ford, and Mercury. The proper percentage appears here for those models based on the purchase date, as defined in the IRS instructions for this line. For all other vehicles the entry here is 100%. Note that *no* Toyota or Lexus vehicles now qualify, so the percentage is always zero for those two makes.

**3 CREDIT ALLOWABLE.** *(auto-calc)* Normally computed as line 3 times the percentage on line 4, this line will be zero if the date placed in service is not in the current tax year or you have made no entry for "Make." This is the tentative credit for all eligible vehicles except plug-in electric drive motor vehicles.

**For qualified plug-in electric drive motor vehicle:**

Lines 4 through 9 relate to a credit for a vehicle that has been converted to be propelled to a significant extent by an electric motor powered by a battery that is recharged from an external source. The vehicle qualifies only if first placed in service after February 17, 2009. See IRS 2009 Instructions for Form 8910 for details. (See Form 8936 for a vehicle manufactured to be propelled by a battery-powered electric motor.)

**Cost of conversion.** Enter the cost of converting a vehicle to be a plug-in electric drive vehicle.

**4 Cost (for allowed dates).** *(auto-calc)* Taken as the preceding entry only if the entry for "Date placed in service" (line 2) is after February 17, 2009 and within the tax year. Otherwise, zero.

**5 Section 179 expense deduction claimed for cost.** Enter the amount of section 179 expense claimed on the vehicle. This part of the cost is not eligible for the credit. (Your entry can be no larger than the amount on line 4.)

**6 Subtract line 5 from line 4.** *(auto-calc)* Computed as indicated, this is the part of the cost that is eligible for the credit.

**7 Multiply line 6 by 10%.** *(auto-calc)* Computed as indicated.

**8 Maximum credit allowable.** *(auto-calc)* Always computed as \$4,000.

**9 Smaller of line 7 or line 8.** *(auto-calc)* Computed as indicated, this is the tentative credit for the plug-in electric conversion.

**10 TENTATIVE CREDIT.** Add lines 3 and 9. *(auto-calc)* Computed as indicated, this is the total credit for all eligible vehicles for 2009,

comprised of the plug-in conversion credit from line 9 and the credit from all other eligible vehicles from line 3.

- 11 Business/investment use percentage.** Enter 100 if the vehicle is used solely for business or investment. Otherwise, enter the percentage (from 0 to 100) that applies. If this entry is zero, no credit will be computed for the partnership return.
- 12 Multiply line 10 by line 11. (*auto-calc*)** Computed as line 10 times the percentage on line 11, this is the business/investment use credit before any amounts from pass-through entities are added. (The result will be zero if the date placed in service is not in the current tax year.)
- 13-15 appear on 8910 form only.** These lines are not specific to any one vehicle, and therefore do not appear on this worksheet.
- 16 (not for partnerships). (*auto-calc*)** Always zero for this partnership (Form 1065) return, this is the personal part of line 10 for an individual (Form 1040) return.

**VEHICLE COUNTED FOR FORM 8910. (*auto-calc*)** This answer will be Yes only if you have meaningful entries for the make of the vehicle and the date purchased, and your entry of date placed in service lies in the fiscal year of the return.

The result on line 12 is used on Form 8910 to compute the credit once you return to the form from the worksheets.

**PART II, CREDIT FOR BUSINESS/INVESTMENT USE PART OF VEHICLE.** The credit is computed here based on your worksheet entries plus any amount from other pass-through entities.

- 11 - 12:** These lines do not appear on the screen here because they relate to individual vehicles. Accordingly, they appear only in the worksheets and on the official printouts.
- 13 Add columns (a) through (c) on line 12. (*auto-calc*)** Although the IRS label for this line implies that the credits from only three vehicles apply, this line is computed as the sum of line 12 of all worksheets combined. (The information appears in columns (a) through (c) of the official printout only when there are three or fewer vehicles claimed. Otherwise, the information appears in a separate supporting statement.)

**Credit from pass-through entities:**

**Schedule K-1 (Form 1065), box 15, code P.** The amount for this line is the alternative motor vehicle credit passed through to the partnership from another partnership in which this partnership is a partner. However, code P is a generic code for all credits not identified as A through O. Therefore, you must take care to enter only the part of the code P amount that applies specifically to the alternative motor vehicle credit.

**Schedule K-1 (Form 1120S), box 13, code P.** The amount for this line is the alternative motor vehicle credit passed through to the partner-

ship from an S corporation in which the partnership is a shareholder. However, code P is a generic code for all credits not identified as A through O. Therefore, you must *take care to enter only the part of the code P amount that applies specifically to the alternative motor vehicle credit*.

**14 Alternative motor vehicle credit from partnerships and S corporations.** *(auto-calc)* Computed as the sum of the preceding two entries.

**15 BUSINESS/INVESTMENT USE PART OF CREDIT.** *(auto-calc)* Computed as the sum of lines 8 and 9, this is the credit that the partnership must pass through to partners.

The amount on line 10 is posted to the Form 8910 component of line 15f of Schedule K. This credit is then allocated among partners in box 15 of their Schedules K-1, using the generic code P. *CAUTION: Because the code is generic, rather than a code specific to either the alternative motor vehicle credit, you must identify the credit in a supporting statement for the last component of line 15f of Schedule K* so that partners will know where to report the credit(s) on their return.

**PART III, CREDIT FOR PERSONAL USE PART OF VEHICLE.** This part is not applicable to Form 1065 returns, so lines 16 through 21 are zero for this partnership return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Distribution Worksheet

**Purpose.** The Distribution Worksheet is a special aid to preparing the Schedules K-1 once Schedule K is complete. It provides a method for the complex distribution of Schedule K amounts among partners without the usual manual labor. Without the worksheet, the software assumes that all positive line items on Schedule K are distributed using the end-of-year *PROFIT*-sharing percentages entered on line D of each Schedule K-1, and all negative line items on Schedule K are distributed using the end-of-year *LOSS*-sharing percentages. With the worksheet, however, separate lines can follow separate distribution rules, with nine automatic distribution methods available plus a manual entry provision.

**Format of the worksheet.** The Distribution Worksheet matches the data entry lines on Schedule K. A code number from 0 to 9 is specified for each line. Each code defines a different distribution method, and each line can have a different code. The different methods use the percentages entered on line D of each Schedule K-1 in different ways. The meanings of the percentages are detailed in the instructions for Schedule K-1. Four pair of percentages are involved:

**Profit sharing percentages.** A pre-change percentage (i) and an end-of-year percentage (ii) are available.

**Loss sharing percentages.** A pre-change percentage (i) and an end-of-year percentage (ii) are available.

**Ownership of capital percentages.** A pre-change percentage (i) and an end-of-year percentage (ii) are available.

**Alternate percentages.** A percentage no. 1 and percentage no. 2 are available.

**Distribution Worksheet codes.** When you first create a Distribution Worksheet for a return, the worksheet is completed with code 1 for all lines. To select a different method, enter a code from 0 to 9 at the line. The instructions you are giving the software with each code are:

**Code 0.** Enter zero for numeric lines on each partners' Schedule K-1. Enter No for question lines, and blank for text lines.

**Code 1.** Use end-of-year profit sharing percentage for distribution of positive amounts, and end-of-year loss sharing percentage for distribution of negative amounts. Use the Schedule K entry for all text and question lines.

**Code 2.** Use end-of-year profit sharing percentage for distribution of either positive or negative amounts. Use the Schedule K entry for all text and question lines.

**Code 3.** Use end-of-year loss sharing percentage for distribution of either positive or negative amounts. Use the Schedule K entry for all text and question lines.

**Code 4.** Use pre-change profit sharing percentage for distribution of positive amounts, and pre-change loss sharing percentage for distri-

bution of negative amounts. Use the Schedule K entry for all text and question lines.

**Code 5.** Use pre-change profit sharing percentage for distribution of either positive or negative amounts. Use the Schedule K entry for all text and question lines.

**Code 6.** Use pre-change loss sharing percentage for distribution of either positive or negative amounts. Use the Schedule K entry for all text and question lines.

**Code 7.** Use alternate percentage no. 1 for distribution of either positive or negative amounts. Use the Schedule K entry for all text and question lines.

**Code 8.** Use alternate percentage no. 2 for distribution of either positive or negative amounts. Use the Schedule K entry for all text and question lines.

**Code 9.** Perform no automatic distribution, allowing separate manual entries on the separate Schedules K-1.

***HINT:** These codes are summarized in the Help Lines at the bottom of the screen.* If you press the Help Key (F1 or ?) when the Distribution Worksheet is being completed, all codes are highlighted in sequence by pressing the space bar.

**Why line 14a is missing.** Line 14a (Net income from self-employment) is a special case not subject to the usual distribution methods. Instead, line 14a is calculated independently and automatically on each individual Schedule K-1 based on the entries on that copy of Schedule K-1 and your answer to Question I for the type of partner.

**Overriding the distribution.** Amounts can be redistributed among the Schedules K-1 at any time by changing the codes on the Distribution Worksheet. All the Schedules K-1 will automatically recalculate after the change, but the process can be quite time-consuming if a large number of Schedules K-1 exist. You can even fix the amounts for a line on Schedule K-1 by changing the entry for the corresponding line on the Distribution Worksheet to code 9, so that subsequent changes in Schedule K do not cause the corresponding line on Schedules K-1 to change. If a change is desired only for selected entries on selected Schedules K-1, however, it is best to itemize the lines on the Schedules K-1 to be changed. The total from an itemized list for a line on a particular Schedule K-1 overrides the amount determined by the distribution code without preventing the automatic distribution to the other Schedules K-1.